

RECEIVED AZ CORP COMMISSION Arizana Corporation Commission

Distributed Street D

BEFORE THE AREZONA CORPORATION COMMISSION 133

CARL J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

DOCUMENT CONTROL

UMENT OUR THE

DOCKET NO. T - 0 7 0 4 4 A - 95 - 0 4 6 1

IN THE MATTER OF APPLICATION AND PETITION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE TELECOMMUNICATIONS SERVICES AS A RESELLER

Ducket No. 11 3044-95-461

Amendments to Original Applications of ASC Telecom, Inc. dba AlternaTel for Certificate of Convenience and Necessity to Provide Intrastate Interexchange Telecommunications Services (operator services and prepaid cards), to Provide Intrastate Telecommunications Services as Reseller and for Determination that Such Services are Competitive

I. INTRODUCTION

Pursuant to the letter from David A. Motycka dated January 18, 2000, ASC Telecom, Inc. dba AlternaTel¹ files the following amendments to its original applications for certificate of convenience and necessity ("CC&N"). Applicant states that with the exception of the information provided below, all other information in the original applications remains valid.

¹ ASC Telecom, Inc. has requested authority to transact business as "AlternaTel" in several states. ASC Telecom, Inc. has received authority to transact business in the State of Arizona by the Arizona Corporation Commission on December 27, 1994. ASC Telecom, Inc. has reserved the name "AlternaTel" in Arizona, and intends imminently to file an application for a trademark or tradename to conduct business in the State of Arizona as "AlternaTel," and intends to conduct business in the State of Arizona as "AlternaTel" after receiving the necessary approvals.

ASC Telecom, Inc. filed its original application for a CC&N to provide intrastate interexchange telecommunications services (operator services and prepaid cards) on November 5, 1995.

Applicant filed its application for a CC&N to provide intrastate telecommunications services as a reseller on March 8, 1996. Both applications have been assigned to the same docket.

II. NAME, ADDRESS AND TELEPHONE NUMBER OF APPLICANT

ASC Telecom, Inc. dba AlternaTel 8140 Ward Parkway Kansas City, MO 64114 913.624.5127 913.624.4326 (fax)

III. CONTACT INFORMATION FOR APPLICANT

Management Contact Person

Jeff Lindsey
Group Mgr, Tariffs and Regulatory Compliance
8140 Ward Parkway
Kansas City, MO 64114
913.624.5127
913.624.4326 (fax)
e-mail: jeff.lindsey@mail.sprint.com

Ann C. Thompson Senior State Tariff Analyst 8140 Ward Parkway Kansas City, MO 64114 913.624.6364 913.624.4326 (fax) e-mail: ann.thompson@mail.sprint.com

Complaint Contact Person

Complaint Services 800.654.2131 (Customer Service, general) 800.793.1146 (Customer Service, Buck-A-Call service)

Attorney Contact

Darren S. Weingard 1850 Gateway Drive, 7th Floor San Mateo, CA 94404 650.513.2475 650.513.2737 (fax)

e-mail: darren.weingard@mail.sprint.com

IV. PROVISION OF TELECOMMUNICATIONS SERVICES

Applicant is not currently providing telecommunications services <u>as a reseller</u> in the State of Arizona. As set forth in its original application, Applicant intends to provide such services upon receipt of necessary approval by the Arizona Corporation Commission. Applicant, however, currently provides operator services in the State of Arizona pursuant to tariffs on file with the Arizona Corporation Commission. For the Commission's convenience, Applicant attaches to this Amendment a complete copy of its Arizona tariff. Applicant does provide operator services to traffic aggregators as defined in A.A.C. R14-2-1001(3) in the hospitality industry.

On November 6, 1995, Applicant sought a separate CC&N to provide intrastate interexchange services (operator services)² now governed by Chapter 10 of the Arizona Administrative Code.

V. ORGANIZATION AND AFFILIATE RELATIONSHIPS

ASC Telecom, Inc. is duly organized and validly exists as a corporation pursuant to the laws of the State of Kansas, and has its principal place of business in the State of Kansas. ASC Telecom, Inc. is a wholly owned subsidiary of US Telecom, Inc. which itself is the general partner in Sprint Communications Company L.P. and a wholly owned subsidiary of Sprint

² Although Applicant's initial application for a CC&N for intrastate interexchange services sought approval for both operator services and prepaid cards, by tariff filing, on or about June 18, 1998, prepaid card services were withdrawn and not provided to new customers.

Corporation. Sprint Corporation and US Telecom, Inc. are Kansas Corporations with their respective principal places of business in Kansas, and Sprint Communications Company L.P. is a Delaware limited partnership with its principal place of business in Kansas. "AlternaTel" is a registered fictitious business name for ASC Telecom, Inc. in several states, and imminently will be the subject of a tradename filing in Arizona to permit ASC Telecom, Inc. to transact business in Arizona as "AlternaTel" upon receipt of necessary approvals, including its applications for CC&N.

Attached hereto as Exhibit A is a listing of all owners, partners, limited liability company managers and/or corporation officers and directors, with percentages of ownership.

VI. FINANCIAL INFORMATION

Applicant retains the financial backing and resources of Sprint Corporation. Sprint has vast experience, including the technical and managerial resources for the provision of the telecommunications services that are the subject of this Application. Such resources have been used in the formation of Applicant, which consequently retains the personnel and management experience and abilities necessary to provide the telecommunications services that are the subject of this Application. To amend and supplement the original applications, Applicant provides the financial statements and 10K reports filed with the Securities Exchange Commission for Sprint Corporation for the past two years. Such documents are attached hereto as Exhibit B.

VII. TARIFF

Attached hereto as Exhibit C is the a complete copy of Applicant's Arizona Tariff.

VIII. STATES WITH SIMILAR PENDING APPLICATIONS

At the time of the initial applications in 1995 and 1996, similar pending applications for authority to resell telecommunications services were pending in California, Florida, New York, Pennsylvania and Louisiana. Such applications have been granted in the following months:

- (a) California—February 23, 1996;
- (b) New York—February 1, 1996;
- (c) Pennsylvania—March 15, 1996;
- (d) Florida—August 3, 1998;
- (e) Louisiana—August 3, 1998.

In December, 1999, Applicant filed a similar application as a competitive provider of telecommunications services providing resold interexchange services within the State of Nevada.

On January 3, 2000, the Application was granted, subject to certain notice requirements.

Respectfully submitted,

DARREN S. WEINGARD STEPHEN H. KUKTA 1850 Gateway Drive, 7th Floor San Mateo, CA 94404 650.513.2475 650.513.2737 (facsimile) e-mail: darren.weingard@mail.sprint.com

stephen.h.kukta@mail.sprint.com

By:

Darren S. Weingard Senior Attorney Attorneys for Applicant

ASC TELECOM, INC. dba ALTERNATEL

Exhibit A

ASC TELECOM, INC.

Incorporated - August 26, 1994 State of Kansas

Principal Address:

2330 Shawnee Mission Parkway

Westwood, KS 66205

Annual Meeting:

Fourth Tuesday in August

Registered Agent:

The Prentice-Hall Corporation System, Inc.

534 South Kansas Avenue

Suite 1108

Topeka, Kansas 66603

FEIN:

48-1155968

Subsidiary of:

US Telecom, Inc.

Principal Business:

Telecommunications business.

DIRECTORS

Eric P. Tom Michael T. Hyde

OFFICERS

Eric P. Tom

David A. Cunningham

Michael T. Hyde

Don A. Jensen

John P. Meyer

Gene M. Betts

Jeffrey R. Anderson

Mark V. Beshears

Valerie S. Brown

President

Vice President

Vice President and Secretary

Vice I resident and Secretary

Vice President and Assistant Secretary

Vice President and Controller

Vice President and Treasurer

Assistant Vice President

Assistant Vice President

Assistant Secretary

/Updated: 8/24/99

C:\TEMP\ASCTELEC1.DOC

STATE	DATE
Alabama	7/14/95
Arizona	12/21/94
Arkansas	5/25/95
California	2/16/95
Colorado	12/22/94
Connecticut	5/23/95
Delaware	5/11/95
District of Columbia	12/21/94
Florida	10/19/94
Georgia	12/21/94
Hawaii	1/12/95
Idaho	5/11/95
Illinois	12/21/94
Indiana	5/11/95
Iowa	5/11/95
Kansas	8/26/94
Kentucky	5/11/95
Louisiana	1/5/95
Maine	5/11/95
Maryland	12/21/94
Massachusetts	5/15/95
Michigan	12/21/94
Minnesota	3/7/95
Mississippi	12/28/94
Missouri	12/21/94
Montana	5/11/95
Nebraska	5/11/95
Nevada	10/20/94
New Hampshire	5/24/95
New Mexico	5/15/95
New Jersey	12/21/94
New York	12/23/94
North Carolina	12/21/95
North Dakota	2/8/95
Ohio	12/21/94
Oklahoma	5/11/95
Oregon	5/12/95
Pennsylvania	12/21/94
Puerto Rico	03/09/99

ASC Telecom, Inc. Qualifications (continued)

STATE	DATE
Rhode Island	5/11/95
South Carolina	12/29/94
South Dakota	3/7/95
Tennessee	12/29/94
Texas	12/21/94
Utah	5/11/95
Vermont	6/9/95
Virginia	12/29/94
Washington	5/11/95
West Virginia	5/11/95
Wisconsin	12/21/94
Wyoming	5/12/95

Exhibit B

SPRINT'S

1998 Annual Report





One person is directing the future of communications.



Sprint is a global communications company, at the forefront in integrating long distance, local, wireless and Internet communications services.

Sprint developed and operates the United States' only nationwide, all-digital, fiber-optic network and is a leader in advanced data communications services. The company is also one of the world's largest carriers of Internet traffic. In addition, Sprint operates the largest 100% digital, 100% PCS nationwide wireless network in the United States.

Sprint has more than \$17 billion in annual revenues and serves more than 17 million business and residential customers.

Founded in 1899, Sprint is celebrating its 100th anniversary of telecommunications service. Sprint's world headquarters is in metropolitan Kansas City.



Sprint is supremely positioned to execute its strategy.

2 Chairman's Letter

One Sprint

Sprint's assets give us performance now, and a One Sprint strategy to grow on.

6 One Customer

Leadership

Sprint has the future well in hand.

- 18 Future First
- 20 Sprint ION
- 26 Sprint PCS

You have a life and a vision all your own. You need to communicate exactly how and when you choose. Sprint lets you define your own communications universe, and takes you right where you want to be.



Impressive Impresario



Allison Toso High Flyer



Connected Entrepreneur



Web Meister



Fabulous Friend



Big Thinker



Modern Mom



Derby Perez Digital Dealmaker

Results

Sprint's results were excellent in 1998.

- 30 Questions and Answers
- 32 Sprint FON Financials
- 36 Sprint PCS Financials
- Sprint Consolidated Financials
- Board of Directors and **Principal Corporate Officers**
- 45 Shareholder Information
- 46 How to Reach Us

Becoming the essential ally

In a world of powerful possibilities, Sprint is quickly becoming the essential ally with its customers.

Dear Shareholder:

In 1998, the critical components of our strategic vision began falling into place. We are pleased that the market recognized this with a 65% total return to our shareholders.

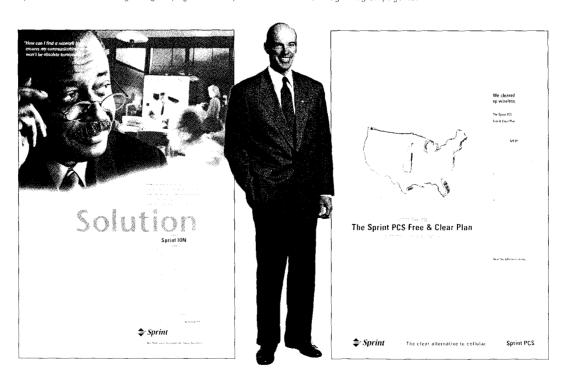
In previous annual letters, I have reported to you on Sprint's efforts to position itself with local, long distance, wireless, Internet, data and international capabilities. What we are observing is other companies, in a rush of acquisitions, trying to assemble what Sprint has already put in place.

Last year, Forbes magazine said, "Unlike WorldCom and AT&T, (Sprint) has all the pieces needed to be a world player in the telecom business — and it has them operating now."

We are confident we are supremely positioned. Our job is to continue to execute our strategy while staying agile and ahead of our competition. We intend to be a leader in an industry that will grow dramatically and change significantly.

Continued on page 4

National advertising campaigns reflect two of Sprint's foremost accomplishments in 1998 — introducing the revolutionary Sprint ION, Integrated On-Demand Network, below left, and assuming total management control of Sprint PCS, right. Sprint ION is featured beginning on page 20 and Sprint PCS is featured beginning on page 26.



William T. Esrey Chairman and Chief Executive Officer

Financial Highlights illions, except per share data)

1998 1997 % Change **Sprint FON Group** Net operating revenues 16,016.9 14,873.9 7.7% Operating income (3) 2,489.9 10.8% 2,759.8 Operating cash flows (3),(4) 4,674.9 4.216.2 10.9% Operating margin⁽³⁾ 17.2% 16.7% Income before extraordinary item(2),(3) 1,340.1 1,477.9 10.3% Pro forma earnings per share before extraordinary item(1),(2),(3) Diluted 3.41 3.07 11.1% Basic 3.46 3.12 10.9% Sprint PCS Group — Pro Forma(1) 258.0 Net operating revenues 1,225.4 375.0% Operating loss (2,640.0)(2,102.7)25.6% Operating cash flows(4) (1,600.6)(1,081.9)47.9% Loss before extraordinary item (1,846.7)(1,466.2)26.0% Diluted and basic loss per share before extraordinary item (4.42)(3.52)25.6% Sprint Corporation Net operating revenues(1) 17,134.3 15,131.9 13.2% Total assets 33,231.1 18,273.6 81.9% Employees (year-end) 64,900 50,600 28.3%

These financial highlights should be read in connection with the full financial statements presented in Sprint's Form 10-K.

November 1998, Sprint completed the restructuring of Sprint PCS and recapitalized its common stock into two separate classes — N Stock and PCS Stock. The PCS Stock is intended to reflect the performance of Sprint's wireless businesses. The FON Stock is intended to reflect the performance of all of Sprint's other operations. This information assumes the PCS Restructuring and Recapitalization occurred at the beginning of 1997. The PCS Group pro forma information also excludes a \$179 million charge for acquired in-process research and development.

(2)In 1998, the FON Group recorded nonrecurring net gains of \$104 million, mainly related to the sale of local exchanges. Including these items, FON Group income before extraordinary item was \$1,540 million (\$3.55 per pro forma diluted share) in 1998.

(3) In 1997, the FON Group recorded nonrecurring litigation charges of \$20 million. The FON Group also recorded nonrecurring net gains of \$71 million related to sales of local exchanges and certain investments. Including these nonrecurring items, the FON Group reported 1997 operating income of \$2,470 million, operating cash flows of \$4,196 million, operating margin of 16.6% and income before extraordinary item of \$1,372 million (\$3.14 per pro forma diluted share).

(4) Operating cash flows equals operating income (loss) plus depreciation and amortization, excluding nonrecurring items.

Special Report

1998 Year in Review

State of the Company

Sprint's overall 1998 revenues increased 13.2% from 1997 to \$17.13 billion.

SPRINT FON GROUP

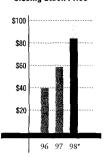
The FON Group is comprised of Sprint's wireline telecommunications operations, including long distance and local telephone. It also includes Sprint ION, product distribution and directory publishing businesses, and other ventures.

he FON Group's 1998 revenues increased 7.7% over 1997 to \$16.02 billion. 1998 operating income was \$2.76 billion, an increase of 10.8% from 1997. Earnings per share from continuing operations was \$3.41, which included a loss of 20 cents per share related to Sprint ION and 45 cents per share for other ventures.

January 19

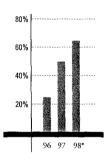
Enough cable to wrap around San Diego's Qualcomm Stadium 331/3 times. More phone lines than a small city. Sprint, the official telecommunications provider to the National Football League. supplied unprecedented communications for the media and fans attending Denver's win over Green Bay in Super Bowl XXXII.

Closing Stack Price



- Sprint Stock
 FON Stock
 PCS Stock
- *Combined stock price FON Stock plus I/2 PCS Stock (to adjust for the effect of the Recapitalization).

Annual Return



- *Combined return FON Stock plus 1/2 PCS Stock (to adjust for the effect of the Recapitalization).
- Source: Bloomberg. Includes stock appreciation and dividend reinvestment.

Becoming the essential ally Continued from page 2

Now, you may say to yourself, isn't it just fanciful dreaming to think we could be a leader in an industry that includes some of the world's largest corporations? Well, by industry leader, I do not mean we want to be the biggest. I mean we want to be the best. Best customer service. Best marketing. Best strategy. Best technology. Best understanding of the future. Best returns. Best people.

The best returns, for example, do not necessarily come from the biggest companies. Consider the five-year annual shareholder returns of a few prominent companies: AT&T, 19.5%; Bell Atlantic, 17.3%; SBC, 24.3%; and Sprint, 30.1%. Granted, Sprint is smaller in size than some of these companies that are merging and marrying in an attempt to avoid being the marketplace or technological old maid. We don't believe that a company can master the changes propelling our industry simply by increasing scale. If scale were any protection, the Titanic would still be afloat.

We would rather lead than be large.

Sprint is a leader in the following key areas:

First, we are a leader in serving what you might call high-end customers — those users with the greatest demand for leading-edge communications, such as sophisticated data and Internet applications. This is a great area in which to lead. We expect the data market to grow from \$9 billion last year to \$13 billion in 1999. By 2002, we believe the market could grow to \$34 billion.

But, interestingly, here's what's also changing. Data solutions are not just for businesses anymore. The residential customer has moved beyond simply talking on the telephone. Consider all the Internet text, e-mails, photos, videos and other information flowing into and out of today's homes. We plan to take our high-end leadership and technological know-how and move it down through the telecommunications chain to the customer at home and to small businesses.

This is what *Sprint ION*, Integrated On-Demand Network, does. *Sprint ION* is taking all of Sprint's capabilities—voice, video, high-speed data — and integrating them to serve the marketplace — large companies, small businesses and those consumers who want and need these types of services.

While Sprint serves more than 7.6 million customer lines with local phone service in 18 states, *Sprint ION* is our strategy to expand to other local markets. It's a strategy in which technology simply erases the distinction between local and long distance, and voice, data and video. Through *Sprint ION*, both businesses and consumers will be able to conduct multiple phone calls, receive faxes, run new advanced applications and use the Internet at speeds up to 100 times faster than today's conventional modems — and they will do all this simultaneously through the single line that already connects to their homes. Yes, it is amazing. And Sprint is the one doing it.

What's more ... because *Sprint ION* integrates voice, Internet Protocol, frame relay and other systems onto a single network, we anticipate significant gains in efficiency. When these technologies are fully deployed, we expect approximately \$1 billion in cost savings over a five-year period through 2004. That is what technology is supposed to do — give greater benefits at lower costs.

Special Report

State of the Company Continued from page 3

The long distance division had a very strong year, with all market segments — residential, business and wholesale — contributing to the performance. Long distance revenues grew 10.2% in 1998 to \$9.91 billion. Operating income rose 30.8% to \$1.37 billion. Calling volumes increased 15%.

The local telecommunications division posted a 5.1% increase in access lines from a year ago, which is among the fastest rates of growth in the industry. Local telephone revenues increased 4.8% in 1998 to \$5.33 billion. Operating income was up 8.8% to \$1.38 billion.

Revenues from product distribution and directory publishing grew 16.5% for the year to \$1.68 billion. Operating income was up 1.4% to \$231 million.

Sprint ION, Global One and other ventures made important strides in 1998. Sprint ION is already being sold in the highend business market. It will expand on a selected-market basis to include small businesses and consumers in 1999.

A second area in which Sprint leads is in wireless. Sprint PCS has quickly emerged as the leading national digital PCS company with more than 3 million subscribers through February 1999. We added 836,000 custing the fourth quarter alone, the biggest one-quarter customer gain in U.S. wireless history.

Sprint PCS is the only wireless service using one brand, one network and one digital technology on a nation-wide basis. Analysts predict that the number of wireless users in the United States will grow from 66 million today to over 100 million by 2001. By 2007, total annual revenues for the industry are expected to approach \$90 billion. We are uniquely positioned to earn a significant share of this opportunity.

This past year Sprint acquired 100% ownership and management control of Sprint PCS. Sprint then recapitalized its common stock into two different common stocks (FON Stock and PCS Stock), and created the Sprint FON Group and the Sprint PCS Group. The Sprint PCS Group is intended to track our wireless operations, and the Sprint FON Group is intended to track all of our other businesses. This recapitalization of Sprint stock allows our investors greater flexibility as they invest in the financial performance of our wireless and wireline businesses.

The final leadership area I would like to mention is international. Our international efforts are focused through our Global One joint venture with France Telecom and Deutsche Telekom. Up to now, we've been disappointed with Global One's lack of profitability; however, we still see real potential. Global businesses have a compelling need for international telecommunications services to match the quality of their domestic services. We are determined to be the leader in satisfying their demand. Global One already has established itself as the preeminent global telecom alliance, with the world's farthest-reaching Asynchronous Transfer Mode (ATM)-based network. It is highly regarded. In fact, this year NATO selected Global One to provide a wide range of telecom services and equipment to NATO member countries. And according to a 1998 poll by the respected *Communications Week International* magazine, telecom users recognized Global One as the best global alliance.

Sprint's leadership in all three areas — high-end data, wireless and international — has not gone unnoticed. FORTUNE magazine's 1999 survey ranked Sprint as America's most admired telecommunications company. We send to build on the confidence that customers and investors alike are showing in Sprint. Through Sprint PCS, through Global One, through our long distance and our local service, through all the services and products we provide, Sprint intends to be the trusted ally of our customers. We intend to help them integrate their communications needs into solutions that serve their lives and the changing world.

We have a well-regarded, extremely capable team of employees. They are highly motivated people who appreciate your support. Together, we are leading Sprint into the next millennium, and we are dedicated to capitalizing on this company's enormous potential.

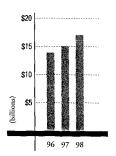
Sincerely,

Bell Esrey
William T. Esrey

Chairman and Chief Executive Officer

March 4, 1999

Sprint Corporation
Pro Forma
Consolidated Revenues



Assumes the PCS Restructuring occurred at the beginning of 1997.

Special Report

1998 Year in Review

Together with France Telecom and Deutsche Telekom, the Global One venture completed its state-of-the-art network in 1998, and had several major multinational contract wins.

SPRINT PCS GROUP

Record subscriber growth and rapid expansion of the nationwide personal communication services (PCS) network demonstrated that Sprint PCS is a winner with consumers and businesses across the country. Total Sprint PCS rules were \$1.23 billion in 1998. Operating losses for the year were \$2.39 billion, excluding a nonrecurring charge of million to write off acquired in-process research and development costs related to Sprint's acquisition of the remaining interests in Sprint PCS. Recurring losses per share were \$4.50 for the year. The losses include an 8 cents per share extraordinary charge related to the early extinguishment of debt.

The "State of the Company" should be read in connection with the full financial statements presented in Sprint's Form 10-K.

January 21

Sprint TELECENTERs Inc. was awarded a long-term multimillion-dollar contract for management of IRIDIUM Global Customer Care Centers to support the world's first global wireless telephone network. Sprint will manage the operation of three telecenters — in Orlando, Florida; Sydney, Australia; and Zoetermeer, Netherlands.

→ In 1998, Sprint introduced a new communications concept — Sprint Unlimited.

The new standard for residential long distance pricing gives consumers unlimited long distance calling on weekends for a flat rate of \$25 a month.



→ Sprint Solutions is a package of discounted local toll calling and custom calling features. Based on 1998 success in North and South Carolina, Sprint has expanded the Sprint Solutions package to seven other states. Ketrina Murphy, right, a Sprint sales representative in New Bern, North Carolina, sells the bundled package that includes such features as Caller ID and Three-Way Calling.

Treating you as one customer

You are the one person directing the future of communications. Sprint is pulling together to serve you as one visionary company.

Sprint is listening to you, the customer, and this is what we hear you saying:

"I am one communications customer: not a local customer over here, a long distance customer over here, a wireless customer over here, or a data customer over there."

"Splitting me up into pieces is confusing. A hassle. An insult, even. So treat me as one person."

"Give me one easy-to-use connection that changes moment-to-moment to meet my individual needs, and follows me wherever in the world I choose to go."

"Give me one place to call for assistance when I need it."

"And give me one bill that's easy to understand and easy to pay."

Indeed, you are one demanding customer.

Sprint is ahead in the race to be the one and only company you need to satisfy your communications demands.

Of course, you also are, in all probability, a shareholder of Sprint. So we will tell this story from two points of view. We will show how Sprint is using its diverse assets to serve you as one customer. We will also show how Sprint's strategy is adding value to your investment.

1998 Year in Review

February 10

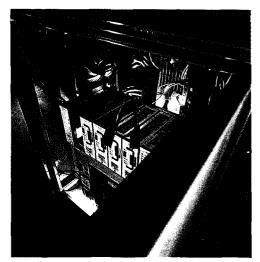
Sprint and Global One announced a \$43 million contract to provide worldwide communications for Siebe plc, one of Britain's largest diversified engineering groups. The 42-month contract will improve Siebe's business performance by consolidating the company's voice, data and international communications worldwide



While competitors are still trying to put the places together spirit is facusing on creating synargias personal terminal wifeless business units and putting them to years.

Putting our assets to work now

The University of Utah Medical Center in Salt Lake City offers a mission-critical example the Sprint communications in action. The wedical Center relies on both Sprint's long distance Internet backbone network and Sprint Paranet, which has a statewide contract to verify Year 2000 computer compliance.



Sprint is leveraging specialized resources and expertise across its business units. One example, above, is Sprint North Supply serving our local division by assembling, wiring and testing local switching electronics.

Our story starts with a quick inventory of the piece parts: the fundamental components others are scrambling to acquire and that Sprint already has.

Sprint is an experienced local communications company serving millions of customers across the country. As you will see on the following pages, we are pushing ahead right now to offer local service any more millions throughout the United States.

Sprint is an innovative long distance company. Our customers are connected to a 100% digital, fiber-optic network that defines "leading edge."

Sprint is an Internet pioneer. Our fiber network has served as a perfect conduit for the Internet for years. Today we continue to be one of the world's largest carriers of Internet traffic.

Sprint is an on-ramp to the Internet for consumers and businesses alike. We are an equity partner in EarthLink Sprint, one of the fastest-growing Internet access providers.

Sprint is the quality leader in the universe of data communications. Every year *Data Communications* magazine asks data users to rate their providers. In 1998, Sprint ranked number one in two key data service categories: IP (Internet Protocol) and frame relay. We also ran away with top honors in customer service. Our new Sprint Paranet business adds to our data punch with computer network services.

Continued on page 10

1998 Year in Review

February 13

The 21 million home-based businesses in the United States now have a way to simplify and better control communications spending. A new service from Sprint provides the types of benefits that were once affordable only for bigger businesses. Sprint Sense Home Office packages long distance service, 800 service and a calling card into one monthly rate.



Cross-marketing makes strategic sense throughout Sprint. In the latest edition of Sprint Publishing & Advertising's Central Florida Phone Book — the corporation's largest of more than 300 telephone directories — customers are offered the chance to sign up for Sprint PCS service.



Sprint's local division introduced a new concept in Kissimmee, Florida, in 1998 — a One Sprint Store that offers the corporation's entire portfolio of products and services: local service with custom calling features, long distance service, business and residential telephones, Sprint PCS phones and service, Internet access and *Spree* prepaid phone cards.



Sprint PCS retail stores across the country use a face-to-face consultative approach to sell a broad portfolio of products and services. The knowledgeable salespeople helped Sprint PCS post a U.S. wireless industry record of 836,000 new customers in the fourth quarter of 1998.

Putting our assets to work now continued from page 9

Sprint is a global connection. Our Global One venture with France Telecom and Deutsche Telekom serves businesses, carriers and consumers around the world. Its new state-of-the-art network has switching centers in 46 countries.

Sprint is wired (and also un-wired) with exceptional network power. Our local networks are virtually 100% digital. Our nationwide wireless network is the only one based on a single digital PCS technology. And our 100% digital, fiber-optic national long distance network is based on uniquely configured technologies. With incomprehensible names like Asynchronous Transfer Mode (ATM) and Synchronous Optical Network (SONET), only a techno-wizard can understand them. But anyone can love them, for one simple reason: they give you a fast, flexible, reliable stream of voice, video and data communications.

Sprint is practically everyone's neighbor. A Sprint Store at RadioShack is only a five-minute drive away from home or work for 94% of Americans. That puts customers within easy reach of a full portfolio of Sprint products and services.

Sprint is widely known, well-trusted and highly regarded. Ours is one of only three nationally known brand names in communications. More than that, our name stands for quality and reliability. Sprint has earned a stellar reputation in the marketplace. For example, Sprint earned the top J.D. Power and Associates ranking for overall customer satisfaction among high-volume long distance customers. We have had that honor for four years in a row, each and every year the study has been conducted.

Continued on page 15

1998 Year in Review

March 11

Sprint became the only Internet service provider to offer uninterrupted web site availability as a standard part of its service. Sprint IP Web Hosting provides insurance against web site rvice failure. The new service rovides a monthly hosting fee credit of up to 50% if the web site is unavailable at any time.

R) Raciosnack

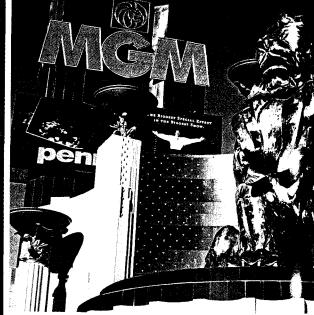


The Sprint Store at RadioShack — available at more than 5,000 RadioShacks across the country — has been a win-win-win situation since the concept was unveiled in 1997. It's haven a win for RadioShack, which reported a 20% increase in phone hardware sales; a win

print, which estimates that 8% of its new long distance customers each month now come from The Sprint Store at RadioShack; and a win for Sprint PCS, which counts the stores as one of its largest retail sales channels for its digital wireless service.



Sheldon G. Adelson is chairman of the board for Las Vegas Sands, Inc., the developer of the new Venetian Hotel. The Venetian will open in April 1999 as an all-suite hotel and casino with more than 3,000 rooms and a 1.6 million square-foot convention center.



William Hornbuckle, right, is president and chief operating officer of the MGM Grand in Las Vegas — the world's largest hotel — and Corey Sanders is MGM Grand's senior vice president and chief financial officer. Sprint has a three-year agreement to be the official telecommunications provider for all MGM Grand Inc. properties.

Brian McMullan is president of THE RESORT AT SUMMERLIN, which will open in the second quarter of 1999. Sprint not only will provide local, long distance and PCS services to the resort and casino, but also is delivering broadband services to the entire 50,000 new home Summerlin planned community.

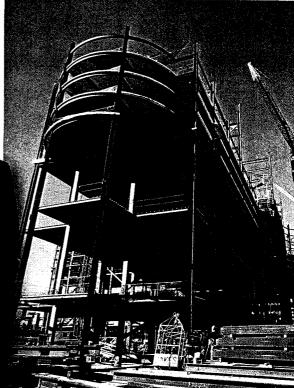


The Bellagio Resort and Casino, which uses what is believed to be the largest installed

phone switch in North America, opened on the Las Vegas Strip in October 1998. Sprint has contracted a total Sprint solution for all Mirage properties, which include the Bellagio, Mirage, Golden Nugget and Treasure Island in Vegas. Sprint's business efforts are led by Jaime Jones, left, and Liz Byland, vice president and general manager.







Richard J. Goeglein is president and CEO of Aladdin Gaming, LLC. Sprint will serve the property, which is being rebuilt on the existing site where the old Aladdin was imploded. The 2,600-room Aladdin will open in April 2000, to be followed with the development of a 1,000-room, musicthemed hotel/casino property.

Las Vegas: A Showcase for One Sprint in Action

"Sprint has become the essential ally with the newest luxury resorts in Las Vegas. The most dynamic businesses in Vegas demand access to the latest and the best telecommunications services," says Eric Tom, area vice president for Sprint Business.

idents and businesses throughout Las Vegas use Sprint's local, long distance and wireless networks tor a full portfolio of products and services — from telecom equipment, local access and data networking to Internet and video services, PCS phones, pay phones and prepaid long distance calling cards.



PNOREHIEST

Putting our assets to work now Continued from page 10

Of course, some of the returns are coming in now:

- Sprint's core long distance and local business logged another year of record revenues and operating income.
- Sprint's long-term data strategy is paying off, and handsomely. Our sales of data services grew more than 55% in 1998. As traffic continues to shift toward data, Sprint has the right assets to take its share of future growth.
- Sprint PCS has been attracting customers at a record pace for the wireless industry.
- Sprint has won a long list of large and prestigious contracts (including Dow Jones & Co., Inc., Unilever, Nortel Networks, Sysco Corporation, Union Pacific Railroad, SmithKline Beecham, Coca-Cola, and the federal government).

These results and others are driven in no small part by Sprint's innovative products and marketing. We have given small business customers free calling with Fridays Free, generating profits while we also secured unprecedented customer retention rates. We have introduced new flagship residential products that have also powered sales and retained customers.

Sprint successfully turned its individual assets into customer satisfaction, customer loyalty and investor returns in 1998. We are in position to build on those achievements. Sprint has everything it needs and is putting it all together to answer your call — as a customer — for one connection, one point of contact, one bill. And through that One Sprint approach, Sprint will create value for you as a shareholder in the new millennium.

Allison Toso is taking advantage of a v business partnership between Sprint and Northwest Airlines. Customers can earn up to 16,500 WorldPerks frequent flier bonus miles when they use Sprint's complete portfolio of services, including local, long distance, Internet service and nationwide paging. The two companies plan to expand their agreement to include Sprint PCS.



← A consortium composed of Sprint, National Grid of Great Britain and France Telecom has been awarded a license to bring competitive long distance and international telephone service to Brazil. Sprint is leveraging its expertise in local and long distance to build the network.



← NationsBank needed 2,500 wireless phones for its Consumer Finance Division. "We used our existing relationship with NationsBank on the local side to broker a deal with Sprint PCS," says Marty Leavengood, left, of Sprint's local division in Jacksonville, Florida. Leavengood worked with Sprint PCS teammates Jim McAllister and Jana Rucker.

1998 Year in Review

May 1

Sprint unveiled a Summer Movie Spectacular promotion that gave consumers who signed up for Sprint long distance service free movie tickets to such films as *The Mask of Zorro* and *Deep Impact*. Sprint later extended a unique offer that gave consumers the opportunity to obtain a free copy of the epic *TITANIC* for switching their long distance service to Sprint.

Sprint Today

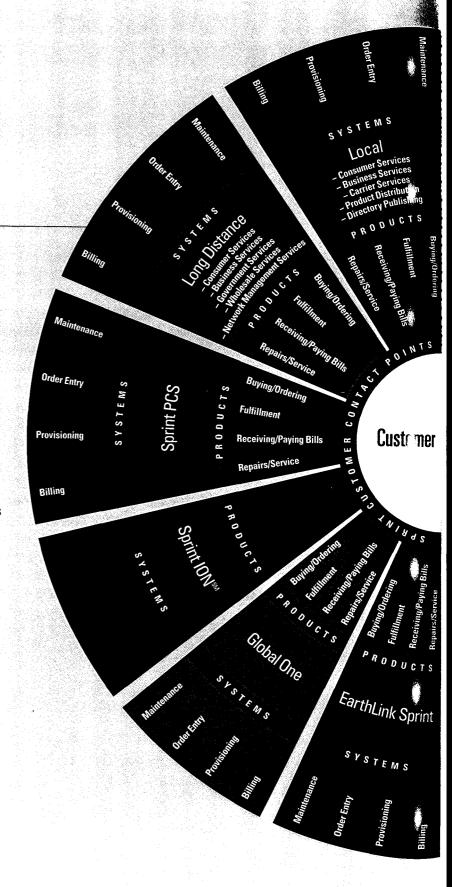
As of 1999, Sprint has grown and prospered for 100 years. Our current approach to the marketplace reflects the way regulatory history has defined the industry. We have business units and partnerships organized to provide services to distinct market segments: such as long distance, local, wireless, global and Internet access. These organizations each have systems, methods and products designed to best serve customers according to today's communications model. For now, this arrangement makes sense for both customers and shareholders. Customers are assured of the reliable, high-quality service they have come to expect. Investors know that Sprint is properly focused on the core businesses that have proven to be key sources of revenue and earnings growth. All of our stakeholders can depend on Sprint to provide the most advanced technology and the best products and services, in the way that works best in today's world.

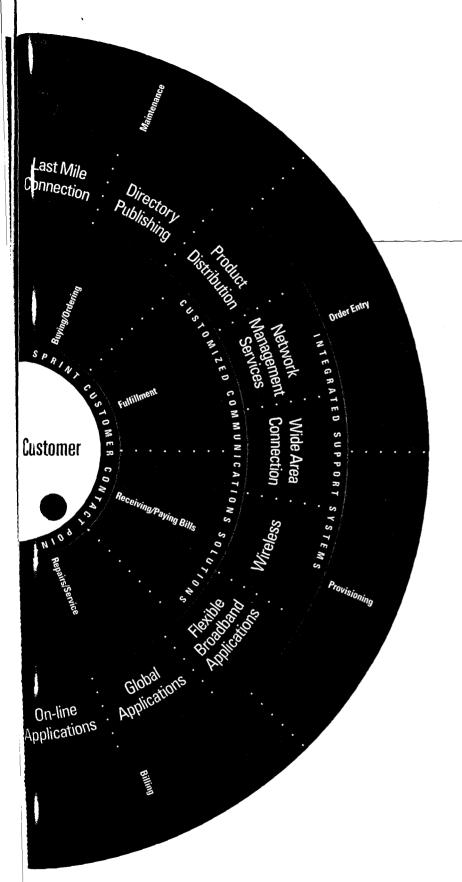


1998 Year in Review

May 11

The state of Washington became the 22nd state for which Sprint provides Telecommunications Relay Service (TRS) for deaf, hard-of-hearing, deaf-blind and speech-disabled consumers. The more than \$30 million contract strengthened Sprint's national leadership in delivering this important service.





One Sprint

capabilities.

The rules that govern telecommunications are changing radically. Many of the service categories familiar to customers today will soon change or disappear entirely. The time is coming, for instance, when customers will no longer distinguish between local, long distance and wireless companies. Customers will get everything they need from a single source, on a single bill and with a single point of contact. With Sprint ION and other innovations, Sprint is already showing customers the way to this extraordinary new world. We are moving toward an integrated One Sprint approach, offering our full portfolio of services through a single point of contact. This calls for a well-managed evolution toward coordinated support and delivery systems. Sprint will execute this transition in a way that ensures continuity for our current business activities, while bringing customers the full benefits of emerging



Emily Voth developed her small business, Indigo Wild, on the Internet. Using Sprint's Free, a Sprint 800 number, EarthLink Sprint Internet access and Sprint PCS, Voth now sells her premium soaps and aromatic therapy products in all 50 states and internationally. Here, she tracks her daily sales while vacationing in Vail, Colorado.

Seeing the future first

Our future is created out of the strength of the present.



↑ In late 1998, Sprint introduced *Sprint Business Flex*, the industry's first integrated calling plan offering total flexibility for the small business customer. The new program allows small businesses to create their own customized bundle of local, long distance and calling card communications services.

Sprint has the leadership vision to see the future first, the business acumen to invest wisely, and the people to execute on its vision.

We saw the future first when Sprint built the first nationwide, 100% digital, fiber-optic telecommunications network in the United States. That asset has supported a strong stream of revenues and earnings.

We saw the future first when Sprint modernized its local networks long before regulators provided incentives to do so. That asset has become a springboard for seizing opportunities in a newly competitive marketplace.

We saw the future first when Sprint deployed the most advanced, high-speed data communications technologies in our nationwide network. That asset has prepared us to prosper in a data-driven marketplace.

We saw the future first when Sprint began building the nation's largest 100% digital, 100% PCS wireless communications network. That asset has vaulted Sprint into a leadership position in an exploding market.

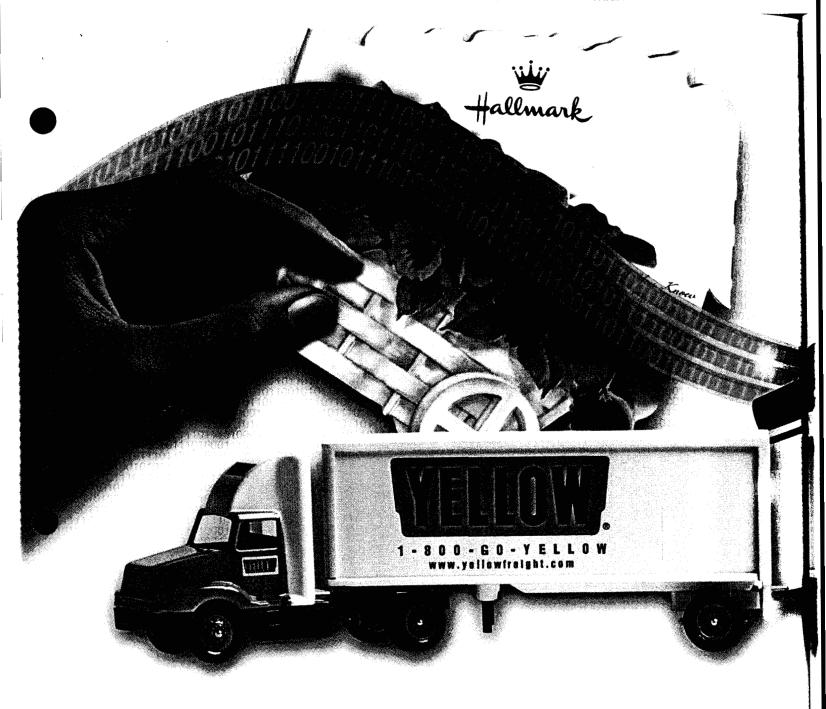
On the strength of these and other combined assets, Sprint is now showing the way into the transforming

On the strength of these and other combined assets, Sprint is now showing the way into the transforming age of integrated communications.

1998 Year in Review

June 2

Sprint announced a revolutionary telecommunications capability — Sprint ION, Integrated On-Demand Network. Sprint ION can provide homes and businesses with virtually unlimited bandwidth over a single existing telephone line for simultaneous voice, video calls and data services. The new capability is a combination of numerous technological advances.



Sprint ION: Expanding the telecom universe

With Sprint ION, you get tomorrow's network today.

1998 Year in Review

June 8

EarthLink, Sprint's new Internet access partner, officially launched the EarthLink Sprint Internet service. The strategic alliance pairs EarthLink's unmatched focus on high-quality service with Sprint's powerful network and marketing channels. The Big Bang in telecommunications came on June 2, 1998. On that date, Sprint announced Sprint ION, Integrated On-Demand Network. Sprint ION expands the communications universe, giving you virtually unlimited capacity to send and receive information. And that makes Sprint a clear leader.

The difference between the capabilities of our competitors and Sprint ION is like the difference between a roomful of pocket calculators and a multimedia computer.

Others may bundle a lot of conventional offerings together and tell you they do more. But Sprint ION is an integrated communications service that truly does deliver more. Think about how you use your home phone line now. It's just one connection at a time: one phone call, then one fax, then one sluggish on-line session. Sprint ION lets you make multiple phone calls, receive faxes, explore the Internet and place



video calls all at the same time, and all through a single phone line. You get the capacity you need at any moment, on demand. Businesses can do the same, plus much more.

This revolutionary capability is rolling out now. Large businesses are already testing *Sprint ION*, and others will start using the service in the near future. We will begin offering it to small businesses and consumers later in 1999 in selected markets.

Sprint ION is what you expect as a customer. It's one connection. It gives you just the services you need any given moment. You get whatever support you need with a single phone call to Sprint. You get everything Sprint ION has to offer consolidated onto one bill.

Sprint ION: Expanding the telecom universe Continued from page 21

Consider now what Sprint ION means to you as a Sprint shareholder.

You have a stake in a patented and proprietary technology, with distinct advantages over competing companies:

As S_{k}

lt

m

lt

CC

lt

ac th Th СС ins

- Sprint ION breaks through the infamous "last mile" problem. Like other companies, Sprint wants to be your total communications company. You shouldn't have to pay one company for local service and another for long distance. But to do that, we have to navigate that "last mile" between Sprint's nationwide network and the customer. Sprint ION is an elegant and cost-effective solution to this difficult challenge. With Sprint ION, we can deliver advanced service to customers with a minimal relignce on the networks of existing local phone companies.
- Sprint ION can be deployed selectively, yet with a very wide reach. Sprint doesn't have to rebuild the entire U.S. telephone system to put the advantages of Sprint ION in customers' hands. We will deliver with a substantial, but smart strategic investment. By connecting Sprint ION through just 15% of the telecom industry's local switching centers in the United States, Sprint ION can reach 70% of our target market.
- Sprint ION lowers Sprint's unit operating costs. Sprint ION is expected to reduce Sprint's network costs to deliver a typical voice call by more than 70%. That puts Sprint in an enviable competitive position.

Josh Jakobe, a computer-savvy teenager, has been a Sprint ION, Integrated On-Demand Network, consumer beta tester since mid-1998. "When friends come over to my house and see how fast my Internet works, their jaws hit the floor," he says. "When I download a picture in no time at all, they look at me and say: 'How is that possible?' And they're computer-smart people."

1998 Year in Review

July 13

An estimated \$17 billion in goods and services was exchanged over the Internet in 1998, with expectations topping more than \$327 billion annually by 2002. As an industry leader in Internet Protocol (IP) Data Virtual Private Network ces, Sprint strengthened its position by delivering the industry's first set of IP Security performance

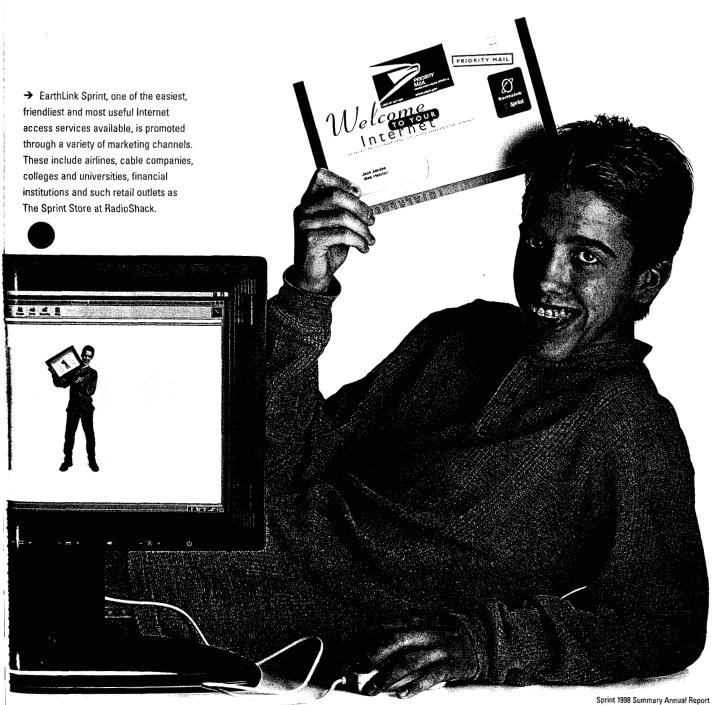
guarantees.

As one industry observer said of *Sprint ION*, "This is not a new chapter; it's a whole new book." *Sprint ION* is a revolutionary technology and a business strategy with enormous promise.

the spens new worlds for just the kind of technologically advanced households that spend the on communications.

It creates unprecedented solutions for businesses that need communications that are both cost-efficient and high-powered.

It places you, as a customer and a shareholder, on page one of the communications future.





At home, Sprint ION customers will be able to conduct multiple phone calls, receive faxes, run new advanced applications and use the Internet up to 100 times faster than today's conventional modems — all simultaneously through a single connection.

LARGE BUSINESS With Sprint ION, large business customers can manage numerous complex networks as one truly integrated network. Companies can link employes customers and external with virtually unlisses bandwidth to all work loc

Sprint ION offers business managers the power and flexibility to customize their network from their own desktop terminals, allocating bandwidth and functions as needed.

Customers can use Sprint ION to collaborate interactively over video desktop connections. Businesses can connect employees and clients in multiple locations for face-toface group consultations.

Companies can use Sprint ION to provide complete communications capabilities for employees who work at home, keeping them fully in touch with their colleagues on a daily basis.

The revolutionary Sprint ION is supported by Sprint's Asynchronous Transfer Mode (ATM) backbone network. It provides speed, bandwidth flexibility, scalability, service consistency, security and voice quality that neither the Internet nor non-ATM-based networks can deliver.

Sprint ION: A communications breakthrough

Sprint ION, Integrated On-Demand Network, is the industry's most innovative new service.

Backed by award-winning customer service, superior marketing and unrivaled distribution channels, *Sprint ION* creates a new paradigm — one where a communications company provides integrated offerings that are available on-demand and controlled by the customer.

Sprint ION opens new vistas for the ways in which people communicate. Customers will be on-line, all the time — part of a network of breathtaking power and speed.

Businesses are empowered to explore new opportunities with Sprint ION — such as reaching new markets through electronic commerce, or providing distance learning opportunities for employees.

SMALL BUSINESS

Sprint ION is the great equalizer,

delivering affordable communi-

cations power to small businesses and home offices

power once enjoyed only

Sprint ION allows business

additional communications

capabilities at their own pace

— all while yielding savings

of network ownership of

customers to integrate

to their total cost

15% to 25%.

by large corporations.

Typical pages on the World Wide Web pop up almost instantaneously using Sprint ION. Such extraordinary speed makes this next-generation technology ideal for interactive games and other demanding on-line applications:

1998 Year in Review

July 23

In the long distance customer satisfaction game, the scoreboard now reads: Sprint 4, Competitors 0. For the fourth year in a row, Sprint has achieved the top position in overall customer satisfaction in the annual J.D. Power and Associates Customer Satisfaction Study among high-volume residential long distance users.

→ Sprint PCS has surged ahead to become the nation's largest PCS provider with 2.59 million subscribers at year-end 1998.

Sprint PCS: Leveraging a clearly better wireless technology

Sprint PCS is the largest 100% digital, 100% PCS nationwide wireless network.

The future of communications is freedom: freedom to communicate whenever, however and wherever you want.

Wireless communication is vital to that freedom, because it lets you stay connected while on the move. And that is a critical advantage in today's fast-moving world. As a result, wireless must be part of any total solution for telecom customers.

Many companies offer wireless today. But there are different kinds of wireless.

There's traditional wireless. That's the cellular connection based on outdated analog technology. It's okay, if you don't mind the static.

There's digital wireless. Digital is a great advancement that clears up the static and extends your talk and standby time with longer battery life. It also opens the door to added features, like voice mail, call forwarding and data communications.

Then there's Sprint PCS digital wireless — digital with a difference.

Sprint PCS is the only company that can reach across the United States with one digital, wireless technology, using one frequency. As a result, our customers enjoy unparalleled sound clarity, coverage and value. Sprint PCS will welcome you to a new wireless experience — including clear and consistent nationwide service, a full range of features, and cutting-edge products and services that can be tailored to your own special needs. Sprint PCS also provides understandable and simplified pricing, savings, and the convenience of multiple retail outlets that sell Sprint PCS. Sprint PCS is clearly a better way to acquire, use and pay for PCS service.

Customer response to the Sprint PCS difference has already set one wireless-industry record: Sprint PCS added 836,000 new subscribers in the fourth quarter of 1998. That's the most ever recorded in a single quarter by a United States wireless carrier.

1998 Year in Review

August 13

Although businesses are the first to use Sprint ION, Integrated On-Demand Network, consumers will be using the service, too. In a matter of weeks after Sprint announced its National Sprint ION Hotline, thousands of consumers signed up to receive electronic updates on the Sprint ION rollout.



Brian Bailey



Tammy Lambert and James Lambert II



Phil France



Lenla and Wendell Adams



Karen Packman



Brian Dilulio



Scott Lenheim



Dev Gupta



Andrea Medina



David Petrou



Candace Eicher and Julie Postal



Dawn Hirano



Derby Perez



Mike Murad



JoAnn Kincaid

A STATE OF THE PROPERTY OF THE

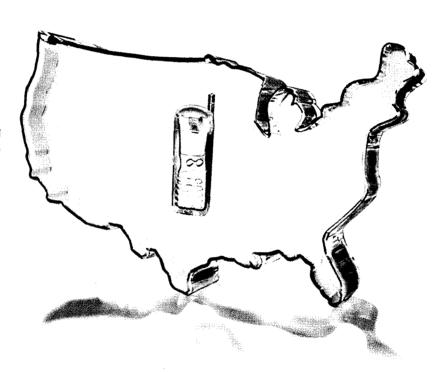
Sprint PCS: Leveraging a clearly better wireless technology Continued from page 26

Investor response has been positive, too. We created a separate Sprint PCS tracking stock in November 1998. Investors showed their confidence in Sprint PCS, raising the PCS Stock price 63% from the beginning of "when-issued" trading through year-end.

We believe that confidence is well-founded, for a variety of reasons:

- Sprint PCS has both the scale and momentum it needs to succeed. With service up and running in 225 major metropolitan markets, Sprint PCS is on track to give customers the coverage they need. With our advanced 100% digital, 100% PCS network, we also can achieve the efficiencies needed to be a competitive, low-cost provider.
- Sprint PCS is breaking new ground in its pricing and service plans. Sprint PCS has introduced innovative, value-packed nationwide service plans, including long distance calling at no extra charge.
- Sprint PCS is now fully owned and managed by Sprint Corporation. This brings many benefits. Sprint. for example, has become the only carrier with nationwide PCS and long distance wireline services. We have the opportunity now to integrate our PCS offerings fully with all of Sprint's products and services. Add to that the combined punch of a fully coordinated brand and marketing program, and we have a powerful competitive advantage.

> Sprint PCS operates the largest 100% digital, 100% PCS nationwide wireless network in the United States. At year-end 1998, Sprint PCS offered service in 225 metropolitan markets, including more than 4,000 cities and communities nationwide.



1998 Year in Review

August 24

Sprint announced plans to boost the transmission speed and bandwidth of its Internet backbone network to produce the fastest type of backbone service available. The upgrade increases Sprint's bandwidth by more than 400%. One new, upgraded connection can support more than 175,000 dial-up users sending and receiving files at the same time.

 Sprint PCS has true coast-to-coast digital wireless coverage — from New York to L.A. Sprint PCS already covers nearly 170 million people. We have licenses to offer our service to nearly 270 million people in all 50 states, Puerto Rico and the U.S. Virgin Islands.



Brian in Los Angeles



Lenla and Wendell in Phoenix



Scott in Seattle



David in Washington, D.C.



Derby in New York



Tammy and James in Atlanta



Karen in Philadelphia



Dev in Boston



Candace and Julie in Orlando



Mike in Dallas



Phil in Detroit



Brian in Denver



Andrea in Chicago



Dawn in San Francisco



JoAnn in St. Louis



In November 1998, Sprint recapitalized its common stock into two separate classes of common stock: FON Stock and PCS Stock (the Recapitalization). At the same time, Sprint acquired the ownership interests of its former cable partners in Sprint PCS (other than a small minority interest in Cox PCS) in exchange for low-vote shares of PCS Stock (the PCS Restructuring). The Recapitalization and PCS Restructuring provide important benefits for Sprint and its shareholders. Investors can more easily value and assess the performance of Sprint's two major business groups. At the same time, the entire Sprint enterprise will continue to have a unified strategic direction and management structure. Following are some of the most frequently asked questions about the Recapitalization and PCS Restructuring:

What is a "tracking stock"?

A tracking stock is a common stock of a corporation, in this case Sprint, which is intended to "track" the performance of a separate group of assets. In November 1998, Sprint's common stock was converted into two classes of stock: the FON Stock and the PCS Stock. The PCS Stock is intended to reflect the separate performance of Sprint's

domestic PCS operations, called the PCS Group. The FON Stock is intended to reflect the performance of all of Sprint's other operations, called the FON Group, which includes the long distance and local operations, the activities to develop and deploy Sprint ION, the product distribution and directory publishing businesses, and other ventures, including Sprint's investments in Global One and EarthLink.

Holders of PCS Stock and FON Stock continue to be common shareholders of Sprint.

What was the impact of the PCS **Restructuring on Sprint PCS?**

As a result of the PCS Restructuring, Sprint PCS is now wholly owned by Sprint, and the former cable partners are now Sprint shareholders through their ownership of a special class of low-vote PCS Stock.

What are the benefits of the PCS Restructuring to Sprint shareholders?

First, the PCS Restructuring enabled Sprint to achieve its strategic objective of obtaining 100% ownership and management control of Sprint PCS.

Secondly, the creation of the separate publicly traded PCS Stock provides a new avenue to raise funds to meet the PCS Group's future capital requirements. For example, in February 1999, Sprint sold 30.5 million shares of PCS Stock to the public and France Telecom and Deutsche Telekom, raising over \$840 million of net proceeds. These funds will help finance the buildout of new and existing PCS markets as well as to help meet ongoing working capital needs.

fc

٤

C

5

Finally, the FON Stock and the PCS Stock are intended to reflect the separate operations of the respective Groups. Sprint believes this should continue to increase the market recognition of the value of Sprint and its individual lines of business reflected by the two stocks.

What are the tax consequences of the creation of the FON Stock and the PCS Stock to shareholders of the former Sprint common stock?

Based on the facts and the law at the time of the Recapitalization, Sprint has received an opinion from its outside legal advisors that, except for cash received for fractional shares, the recapitalization of Sprint's common stock into the PCS Stock and the FON Stock was, for U.S. federal income tax purposes, tax-free

to Sprint common shareholders. For U.S. federal income tax purposes, cash received for fractional shares will likely result in the recognition of a gain or loss. Sprint common shareholders should consult their tax advisors.

What happens to Sprint's common stock dividend?

Sprint currently intends to pay quarterly dividends of \$0.25 per share on the FON Stock, which is the same as the dividend paid on Sprint's common stock before the Recapitalization. The Sprint Board of Directors does not anticipate paying dividends on the PCS Stock for the foreseeable future.

What information will Sprint provide to its shareholders to track the separate performance of the PCS Group and the FON Group?

Sprint has presented in this Summary Annual Report, and will present in all of its future periodic filings with the Securities and Exchange Commission, financial statements of both the FON Group and the PCS Group, in addition to Sprint consolidated financial statements.

Sprint will also provide separate information on the performance of the PCS Group and the FON Group in its quarterly earnings releases to the public.

The financial statements of the FON Group and the PCS Group together include all of the assets, liabilities and operating results of Sprint. Presentation of separate FON Group and PCS Group financial statements along with the Sprint consolidated financial statements provides current and potential investors of FON Stock and PCS Stock with financial information about the underlying FON Group and PCS Group businesses as well as about Sprint as a whole.

Spotlight

1998 Year in Review

Y2K Special Report

It has been well publicized that the Year 2000 issue has global implications for the broad range of products and services that depend on date-sensitive computer software and hardware to function properly. Sprint cannot predict the full impact of the Year 2000 issue on its suppliers, customers and other carriers. However, Sprint is working hard to meet its Year 2000 challenges. As a result of these efforts, Sprint's telecommunications networks as well as the internal systems and applications that support our business will be ready for the millennium.

Additional information about Sprint's Year 2000 Program is available on the Sprint Internet web site http://www.sprint.com/y2k.

September 8

Sprint's local telecommunications division announced an aggressive new policy to fight illegal cramming practices. Cramming occurs when products or services are added to customers' bills without their permission. Sprint's new policy imposes strict standards on companies that contract with Sprint to bill for their services.



C

N 0 0 In Ec 0: In In In

E

SE

S

Sprint Wholesale

Hella) (III) and responsiveness from a single source





Sprint.

Sprint FON Group

↑ Huddling up at a telecom trade show in Atlanta are, from left: Sprint customer
Neil Lichtman, president of Claricom; Tom Alesi, Sprint senior national account manager; and Paget Alves, president of Sprint's
Wholesale Services Group.

CORE BUSINESSES

Long Distance Division — The long distance division is the nation's third-largest provider of long distance phone services. It operates a nationwide, all-digital long distance telecommunications network that uses state-of-the-art fiber-optic and electronic technology. The division provides domestic and international voice, video and data communications services, as well as integration management and support services for computer networks.

Local Division — The local division consists of regulated local phone companies serving more than 7.6 million access lines in 18 states. It provides local phone services, access by phone customers and other carriers to its local network, sales of telecommunications equipment, and long distance services within certain regional calling areas.

Product Distribution and Directory Publishing — These businesses provide wholesale distribution services of telecommunications products, and publish and market white and yellow page telephone directories.

SPRINT ION, INTEGRATED ON-DEMAND NETWORK

Sprint ION enables Sprint to provide the network infrastructure to meet customers' demands for data, Internet and video, and will also be the foundation for Sprint to provide competitive local service.

OTHER VENTURES

The "other ventures" segment includes the FON Group's investment in the Global One international strategic venture with France Telecom and Deutsche Telekom. It also includes the FON Group's investment in EarthLink Network, Inc., an Internet service provider, and the FON Group's other telecommunications investments and ventures.

SPRINT CORPORATION - FON GROUP

(millions)					
For the case ended December 31,		1998		1997	1996
Net operating Revenues	\$	16,016.9	\$	14,873.9	\$ 13,887.5
Operating expenses		13,257.1		12,404.0	11,619.8
Operating Income		2,759.8	•	2,469.9	2,267.7
Interest expense		(317.8)		(210.8)	(196.7)
Equity in loss of Global One		(186.0)		(162.1)	(82.1)
Other income, net		218.1		164.1	115.3
Income from continuing operations before income taxes		2,474.1		2,261.1	2,104.2
Income tax expense		(934.0)		(889.5)	(793.6)
Income from Continuing Operations	_	1,540.1		1,371.6	 1,310.6
Discontinued operation, net		-		-	(2.6)
Extraordinary items, net		(4.8)		-	(4.5)
Net Income	\$	1,535.3	\$	1,371.6	\$ 1,303.5

These condensed combined financial statements should be read in connection with the full financial statements presented in Sprint's Form 10-K.

In November 1998, Sprint completed the restructuring of Sprint PCS and recapitalized its common stock into two separate classes — FON Stock and PCS Stock. The FON Stock is intended to reflect the performance of the FON Group. The following FON Group pro forma earnings per share amounts assume the FON shares existed for all periods presented.



\$ 3.55 \$ 3.14 \$ 3.0

Report of Independent Auditors on Condensed Combined Financial Statements — Spin FON Group

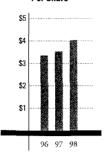
The Board of Directors and Shareholders Sprint Corporation

We have audited, in accordance with generally accepted auditing standards, the combined balance sheets of the Sprint FON Group at December 31, 1998 and 1997, and the related combined statements of income, cash flows and comprehensive income for each of the three years in the period ended December 31, 1998 (not presented separately herein), and in our report dated February 2, 1999, we expressed an unqualified opinion on those combined financial statements. In our opinion, the information set forth in the accompanying condensed combined statements of income, balance sheets and statements of cash flows is fairly stated in all material respects in relation to the combined financial statements from which it has been derived.

Ernst + Young LLP

Kansas City, Missouri February 2, 1999

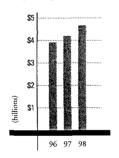




Assumes the FON Stock created in the Recapitalization existed for all periods presented and excludes nonrecurring items.

Sprint FON Group

Operating Cash Flows



Operating cash flows equals operating income plus depreciation and amortization, excluding nonrecurring items.

Spotlight

1998 Year in Review



Sprint wins FTS 2001 government contract.

In 1998, Sprint was the first of two vendors selected for the FTS 2001 contract providing domestic and international voice and data long distance services to the federal government. Sprint is expected to achieve a minimum revenue of \$750 million over the multiyear agreement and is in position to compete for additional business.

Sandy Bates, left, deputy commissioner/federal technical services for the General Services Administration, is in charge of all federal government long distance services. Jim Payne directs Sprint's FTS 2001 team.

October 13

Sprint and PrimeCo Personal Communications, L.P., announced that Sprint will acquire PrimeCo's Hawaii PCS license and operations. The acquisition includes all PCS infrastructure, retail operations, employees, customer accounts and associated assets. The acquisition brought an important market into the growing Sprint PCS nationwide network.

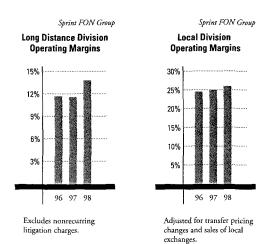
Segmental Financial Highlights

SPRINT CORPORATION - FON GROUP

(millions) For the years ended December 31,	1998	1997	% Change
Net Operating Revenues			
Long distance division	\$ 9,910.9	\$ 8,994.0	10.2%
Local division ⁽¹⁾	5,329.2	5,086.9	4.8%
Product distribution and directory			
publishing businesses ⁽¹⁾	1,683.1	1,445.1	16.5%
Operating Income (Loss)			
Long distance division ⁽²⁾	1,366.8	1,045.3	30.8%
Local division(1)	1,384.3	1,272.5	8.8%
Product distribution and directory			
publishing businesses ⁽¹⁾	230.9	227.7	1.4%
Sprint ION	(143.1)	(5.2)	NM
Other ventures	(39.9)	(83.8)	52.4%

⁽¹⁾ Beginning in July 1997, the FON Group changed its transfer pricing for certain transactions between affiliates to more accurately reflect market pricing. These amounts assume these transfer pricing changes and sales of local exchanges in 1998 and 1997 occurred at the beginning of 1997.

⁽²⁾ Excludes a nonrecurring charge of \$20 million in 1997 related to litigation. NM = Not meaningful



1998 Year in Review

Spotlight

October 15

Global One - the international joint venture of Sprint, France Telecom and Deutsche Telekom announced a new service for global businesses with high bandwidth needs. The worldwide, seamless Asynchronous Transfer Mode (ATM) service for multinational customers is called Global ATM. It will be offered initially in 13 countries.

High-tech trial takes off in Vegas.

About 450 Sprint local telephone customers in the Summerlin community of Las Vegas have agreed to participate in a trial of Sprint's new High-Speed Data (HSD) service. The high-growth community has its own web site on the Internet, allowing residents to stay in touch with each other and with businesses, medical facilities, schools and other services.

Sprint cable splicers Wayne Blitch, top, and Frank Brown install "fiber to the curb" in the Summerlin community.



RESULTS

Condensed Combined Balance Sheets

SPRINT CORPORATION -- FON GROUP

(millions) December 31,		1998		1997
Accets	Φ.	4.040.4	•	0.007.0
Current assets	\$	4,042.1	\$	3,637.3
Property, plant and equipment, net		12,464.0		11,306.8
Other		2,768.7		1,636.4
Total	\$	19,274.8	\$	16,580.5
Liabilities and Group Equity				
Current liabilities	\$	3,293.4	\$	3,019.2
Long-term debt		4,682.8		3,748.6
Other		2,274.1		2,173.4
Group equity		9,024.5		7,639.3
Total	\$	19,274.8	\$	16,580.5

Condensed Combined Statements of Cash Flows

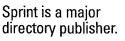
SPRINT CORPORATION — FON GROUP

(millions) For the years ended December 31,	1998	1997	1996
Operating Activities			
Net income	\$ 1,535.3	\$ 1,371.6	\$ 1,303.5
Adjustments to reconcile net income to net cash			
provided by operating activities	2,436.0	1,535.2	963.7
cash provided by operating activities	3,971.3	 2,906.8	 2,267.2
cash used by investing activities	(3,639.7)	(4,027.3)	(1,719.9)
Net cash provided (used) by financing activities	 (0.8)	 71.6	 479.1
Increase (Decrease) in Cash and Equivalents	330.8	(1,048.9)	1,026.4
Cash and Equivalents at Beginning of Year	 101.7	 1,150.6	 124.2
Cash and Equivalents at End of Year	\$ 432.5	\$ 101.7	\$ 1,150.6

Sprint FON Group **Capital Expenditures**

These condensed combined financial statements should be read in connection with the full financial statements presented in Sprint's Form 10-K.





Sprint Publishing & Advertising has a circulation of more than 20 million telephone directories across 20 states.

Customer George Lampert of Marco River Marina in Naples, Florida, works with Sprint's Stephanie Allan.



Spotlight

Sprint North Supply provides equipment and distribution services to the communications and security industries. The company has annual

Sprint North Supply: nationwide distributor.

sales exceeding \$1 billion.

By installing new pick modules in its distribution centers, Sprint North Supply

is significantly increasing efficiency.



↑ Minneapolis KFAN radio salesperson Jileen Hansen uses her Sprint PCS phone at home. "Why pay someone for a phone that stays on my wall all day?" asks Hansen.

The PCS Group includes Sprint's domestic wireless phone services. The PCS Group, which markets its products and services under the Sprint and Sprint PCS brand names, operates the only 100% digital, 100% PCS wireless network in the United States with licenses to provide service using a single frequency and a single technology. The PCS Group owns licenses to provide service to the entire U.S. population, including Puerto Rico and the U.S. Virgin Islands. At year-end 1998, the PCS Group operated PCS systems in 225 U.S. metropolitan markets, including 45 of the 50 largest U.S. metropolitan areas.

Condensed Combined Statements of Operations

SPRINT CORPORATION — PCS GROUP

(millions)			
For the rended December 31,	1998	1997	1996
Net Operating Revenues	\$ 1,225.4	\$ -	\$ -
Operating expenses	3,794.8	18.5	0.5
Operating Loss	(2,569.4)	(18.5)	(0.5)
Interest expense	(491.6)	-	-
Other partners' loss in Sprint PCS	1,250.9	-	-
Equity in loss of Sprint PCS	-	(659.6)	(191.8)
Minority interest and other, net	178.4	-	-
Loss before income taxes	(1,631.7)	(678.1)	(192.3)
Income tax benefit	542.1	259.0	72.6
Loss before Extraordinary Item	(1,089.6)	(419.1)	(119.7)
Extraordinary item, net	(31.2)	•	-
Net Loss	\$ (1,120.8)	\$ (419.1)	\$ (119.7)

These condensed combined financial statements should be read in connection with the full financial statements presented in Sprint's Form 10-K.

The 1998 amounts include Sprint PCS' operating results on a consolidated basis for the entire year. The Cable Partners' share of losses through the PCS Restructuring date has been reflected as "Other partners' loss in Sprint PCS." Before 1998, Sprint's investment in Sprint PCS was accounted for using the equity method.

In November 1998, Sprint completed the restructuring of Sprint PCS and recapitalized its common shares into two separate classes — FON Stock and PCS Stock. The PCS Stock is intended to reflect the performance of Sprint's wireless PCS operations. The following PCS Group pro forma loss per share amounts assume the PCS Restructuring and Recapitalization occurred at the beginning of 1997. The per share amounts also exclude a \$179 million (\$0.43 per share) nonrecurring charge for acquired in-process research and development.

Pro Forma Diluted Loss per Common Share Before Extraordinary Item (unaudited)

(4.42)(3.52)

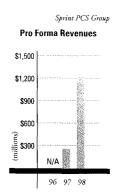
Report of Independent Auditors on Condensed Combined Financial Statements — Sprint PCS Group

The Board of Directors and Shareholders **Sprint Corporation**

We have audited, in accordance with generally accepted auditing standards, the combined balance sheets of the Sprint PCS Group at December 31, 1998 and 1997, and the related combined statements of operations and cash flows for each of the three years in the period ended December 31, 1998 (not presented separately herein), and in our report dated February 2, 1999, we expressed an unqualified opinion on those combined financial statements based on our audits and the report of other auditors. In our opinion, the information set forth in the accompanying condensed combined statements of operations, balance sheets and statements of cash flows is fairly stated in all material respects in relation to the combined financial statements from which it has been derived.

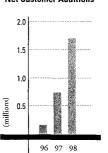
Ernet + Young LLP

Kansas City, Missouri February 2, 1999



Assumes the PCS Restructuring occurred at the beginning of 1997.





Includes Cox PCS and APC customers.

Spotlight

1998 Year in Review



Sprint PCS is sold nationwide through nearly 9,000 outlets.

Extensive distribution channels have helped generate the rapid growth in our Sprint PCS customer base. Sprint PCS retail outlets include our own stores and third-party retailers. RadioShack sells Sprint PCS services in more than 3,000 locations. Other national retailers of Sprint PCS include Best Buy, Circuit City and Sam's Club.

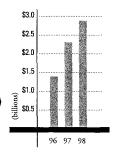
More than 60% of Sprint PCS sales are made through third-party retailers.

October 19

Sprint is providing high-speed data connections to boost the speed and bandwidth of Microsoft's corporate Internet. Using Sprint's advanced technology, Microsoft will dramatically increase reliability and access to several of its most popular web sites, including its home page and sites for travel, automotive service, on-line news and on-line magazine.

(millions) December 31,	1998	1997
Assets Current assets	\$ 855.8	\$ 2.9
Property, plant and equipment, net	6,534.9	187.3
Goodwill and other intangibles, net	7,337.8	544.5
Other	 409.9	 968.4
Total	\$ 15,138.4	\$ 1,703.1
Liabilities and Group Equity		
Current liabilities	\$ 2,673.7	\$ 67.6
Long-term debt	7,572.7	-
Other	1,136.5	249.6
Group equity	3,755.5	1,385.9
Total	\$ 15,138.4	\$ 1,703.1

Sprint PCS Group **Capital Expenditures**



Includes capital expenditures for all PCS Group entities for the years presented.

Condensed Combined Statements of Cash Flows

SPRINT CORPORATION — PCS GROUP

Cash and Equivalents at End of Year

(millions) For the years ended December 31,	1998	1997	1996
Operating Activities			
Net loss	\$ (1,120.8)	\$ (419.1)	\$ (119.7)
Adjustments to reconcile net loss to net cash			
provided (used) by operating activities	961.9	456.6	119.2
Net cash provided (used) by operating activities	(158.9)	37.5	 (0.5)
Net cash used by investing activities	(861.1)	(1,019.7)	(381.5)
Net cash provided by financing activities	1,192.7	 982.2	382.0
Change in Cash and Equivalents	172.7	-	-
Cash and Equivalents at Beginning of Year	-	-	-

These condensed combined financial statements should be read in connection with the full financial statements presented in Sprint's Form 10-K.

\$

172.7

Spotlight

\$

The 1998 amounts reflect Sprint PCS' cash flows after the PCS Restructuring.

1998 Year in Review

November 10

Using Sprint's high-speed frame relay data service, BMW is changing the way it finances and sells cars. Prospective customers are walking into 350 BMW dealerships n the United States and using the MW InfoBahn system, a computer program that helps customers choose the make and model of their new car and apply for credit - all at the touch of a button.

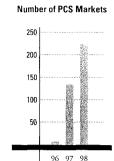
Sprint PCS attracts customers with feature-rich phones.

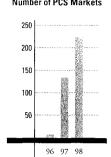
Sales of Sprint PCS service are driven, in part, by our wide selection of phones. Sprint PCS has offered 13 different models from seven manufacturers. Among them are the Samsung SCH-2000, featuring voice-activated dialing, and the Sprint PCS Touchpoint, a simple, easy-to-use PCS phone with a built-in mouse-like user interface and an extra-large display screen.

Sprint PCS will further enhance its competitive position in 1999 by offering an even wider assortment of PCS phones.



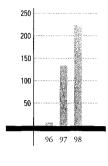
\$





Sprint PCS Group

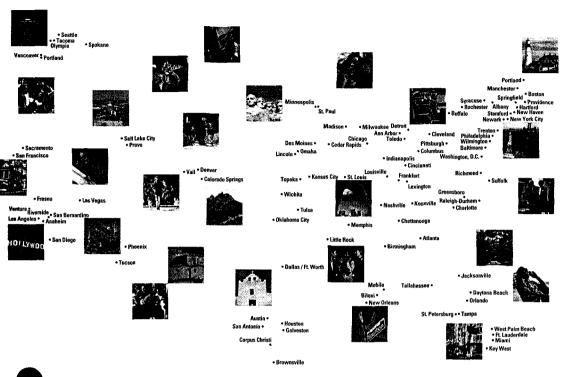




Sprint PCS Group **Number of Customers** 3.0 2.0 1.5 0.5

97

Includes Cox PCS and APC customers.



Anaheim, CA Ann Arhor, Mi Atlanta, GA Austin, TX Battimore MD Biloxi, MS* Birmingham, AL Boston, MA Brownsville, TX Buffalo, NY Cedar Rapids, IA Charlotte, NC Chattanooga, TN

Chicago, IL

Cincinnati, OH Cleveland, OH Colorado Springs, CO Columbus, OH Corpus Christi, TX Dallas, TX Danbury, CT Denver, CO Des Moines, IA Detroit, MI Frankfurt, KY Fresno, CA Ft. Lauderdale, FL Ft. Worth, TX

Galveston, TX Greensboro, NC Hartford, CT Honolulu, HI Houston, TX Indianapolis, IN Jacksonville, FL Kansas City, MO Key West, FL Knoxville, TN Las Vegas, NV Lexinaton, KY Little Rock, AR Los Angeles, CA

Louisville, KY Madison, WI* Manchester, NH Memohis, TN Miami, FL Milwaukee, Wi Minneapolis, MN Mobile, AL* Nashville, TN New Haven, CT New Orleans, LA New York City, NY Newark, NJ Oklahoma City, OK Olympia, WA

Omaha, NF Orlando, FL Philadelphia, PA Phoenix AZ Pittsburgh, PA Portland, MF Portland, OR Providence, RI Provo, UT Raleigh-Durham, NC Richmond, VA Riverside, CA Rochester, NY Sacramento, CA Salt Lake City, UT

San Antonio, TX San Bernardino, CA San Diego, CA San Francisco, CA Seattle, WA Spokane, WA Springfield, MA St. Louis, MO St. Paul, MN St. Petersburg, FL Stamford, CT Suffolk VA Syracuse, NY Tacoma, WA Tallahassee, FL

Toledo, OH Topeka, KS Trenton, NJ Tucson, AZ Tulsa, OK Vail, CO Ventura, CA Washington, D.C. West Palm Beach, FL Wichita, KS Wilmington, DE

*Service is planned for these cities and surrounding areas.

Spotlight

1998 Year in Review





We can reach more people than any other wireless provider.

Sprint PCS added 91 metropolitan markets in 1998. Sprint PCS has licenses to serve nearly 270 million people in all 50 states, Puerto Rico and the U.S. Virgin Islands. With the launch of Sprint PCS service in Atlanta and Chicago in January 1999, Sprint PCS can now reach nearly 170 million people across the nation — more than any other wireless provider.

Sprint PCS now offers service in all of the nation's major metropolitan markets.

November 12

Global One, the international joint venture of France Telecom, Deutsche Telekom and Sprint, announced the launch of advanced routing features for its Global Call Center and Global VPN services, based on the Global One Intelligent Network platform. Global One is the first to support such advanced features on a Pan-European basis.

ESULTS

One Sprint Orlando Right Here, Right Now





Sprint Corporation

↑ Orlando was the first branch to consolidate Sprint's sales efforts. Dorothy Nieto of long distance now works alongside Edwin Wright of local in Maitland, Florida. Sprint Corporation is a diversified telecommunications service provider. Its principal activities are conducted through the FON Group and the PCS Group. In November 1998, Sprint's shareholders approved a proposal that created PCS Stock and FON Stock. The PCS Stock is intended to reflect the performance of the PCS Group. The FON Stock is intended to reflect the performance of the FON Group.

Condensed Consolidated Statements of Income

SPRINT CORPORATION

(millions) ears ended December 31,	1998	1997	1996
Net Operating Revenues	\$ 17,134.3	\$ 14,873.9	\$ 13,887.5
Operating expenses	16,943.9	12,422.5	11,620.3
Operating Income	 190.4	2,451.4	2,267.2
Interest expense	(728.2)	(187.2)	(196.7)
Equity in loss of Global One	(186.0)	(162.1)	(82.1)
Other partners' loss in Sprint PCS	1,250.9	-	-
Equity in loss of Sprint PCS	-	(659.6)	(191.8)
Other income, net	315.3	140.5	115.3
Income from continuing operations before income taxes	842.4	1,583.0	 1,911.9
Income tax expense	(391.9)	(630.5)	(721.0)
Income from Continuing Operations	450.5	952.5	1,190.9
Discontinued operation, net	-	-	(2.6)
Extraordinary items, net	(36.0)	-	(4.5)
Net Income	\$ 414.5	\$ 952.5	\$ 1,183.8

These condensed consolidated financial statements should be read in connection with the full financial statements presented in Sprint's Form 10-K.

The 1998 amounts include Sprint PCS' operating results on a consolidated basis for the entire year. The Cable Partners' share of losses through the PCS Restructuring date has been reflected as "Other partners' loss in Sprint PCS." Before 1998, Sprint's investment in Sprint PCS was accounted for using the equity method.

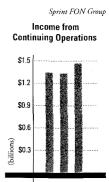
Report of Independent Auditors on Condensed Consolidated Financial Statements

oard of Directors and Shareholders Sprint Corporation

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Sprint Corporation at December 31, 1998 and 1997, and the related consolidated statements of income, cash flows, comprehensive income and shareholders' equity for each of the three years in the period ended December 31, 1998 (not presented separately herein), and in our report dated February 2, 1999, we expressed an unqualified opinion on those consolidated financial statements based on our audits and the report of other auditors. In our opinion, the information set forth in the accompanying condensed consolidated statements of income, balance sheets and statements of cash flows is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

Ernet + Young LLP

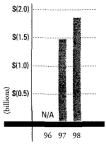
Kansas City, Missouri February 2, 1999



Excludes nonrecurring items.

Sprint PCS Group
Pro Forma Loss from

Pro Forma Loss from Continuing Operations



Assumes the PCS Restructuring occurred at the beginning of 1997 and excludes nonrecurring items

Spotlight

1998 Year in Review



Sprint unveils a new global blueprint.

Global One, the alliance of Sprint, France Telecom and Deutsche Telekom, announced a revolutionary Global ATM (Asynchronous Transfer Mode) Backbone Network to carry voice, data and other traffic over a single network globally. The ATM network is a high quality, cost-effective solution for multinational companies that have outgrown their frame relay and private line networks.

Dennis Lombardi, Cameron Rejali and Malcolm Petty represent three organizations on Sprint's global backbone design team.

November 13

Shareholders approved a proposal enabling Sprint to assume full ownership and management control of Sprint PCS and create two separate classes of Sprint common stock — the PCS Stock is intended to reflect the performance of Sprint's domestic wireless PCS operations and the FON Stock is intended to reflect local, long distance and other operations.

RESULTS

Condensed Consolidated Balance Sheets

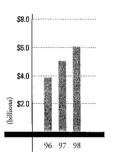
SPRINT CORPORATION

(millions) December 31,	1998	1997
Assets		
Current assets	\$ 4,387.9	\$ 3,772.6
Property, plant and equipment, net	18,983.0	11,494.1
Goodwill and other intangibles, net	7,693.0	938.7
Other	2,167.2	2,068.2
Total	\$ 33,231.1	\$ 18,273.6
Liabilities and Shareholders' Equity		
Current liabilities	\$ 5,441.1	\$ 3,076.8
Long-term debt	11,942.4	3,748.6
Other	3,399.3	2,423.0
Shareholders' equity	12,448.3	9,025.2
Total	\$ 33,231.1	\$ 18,273.6

Sprint Corporation **Debt to Capital Ratio** 50% 40% 30% 96 97 98

Sprint Corporation

Capital Expenditures



Includes capital expenditures for all Sprint entities for the years presented.

Condensed Consolidated Statements of Cash Flows

SPRINT CORPORATION

(millions) For the years ended December 31,	1998	1997	1996
Operating Activities			
Net income	\$ 414.5	\$ 952.5	\$ 1,183.8
Adjustments to reconcile net income to net cash			
provided by operating activities	3,840.9	2,426.5	1,219.7
Net cash provided by operating activities	4,255.4	3,379.0	 2,403.5
Net cash used by investing activities	(4,485.4)	(4,499.5)	(1,856.2)
Net cash provided by financing activities	733.5	 71.6	 479.1
Increase (Decrease) in Cash and Equivalents	503.5	(1,048.9)	1,026.4
Cash and Equivalents at Beginning of Year	101.7	 1,150.6	 124.2
Cash and Equivalents at End of Year	\$ 605.2	\$ 101.7	\$ 1,150.6

These condensed consolidated financial statements should be read in connection with the full financial statements presented in Sprint's Form 10-K.

The 1998 amounts reflect Sprint PCS' cash flows after the PCS Restructuring.

1998 Year in Review

Spotlight

December 7

The first group of Sprint ION, Integrated On-Demand Network, business customers began migrating their multiple voice, data and video networks onto the revolutionary network. The significant milestone helps customers eliminate worries about technological obsolescence, redundant costs and the distractions of managing multiple communications networks.

EarthLink cross-markets Sprint Sense service.

EarthLink Sprint is a jointly marketed, co-branded Internet access service. EarthLink Sprint is an asset representing a customer, a distribution channel and an additional product in Sprint's portfolio. Sprint Business will sell EarthLink Sprint to small businesses by mid-year.

This magazine ad cross-markets consumer Internet access with Sprint Sense long distance calling.

Sign up for Sprint Sense AnyTime^{sм} and Sign on for Savings



Management Report

The condensed financial statements in this summary annual report were derived from the financial statements that ear in Sprint's 1998 Form 10-K. Management of Sprint has the responsibility for the integrity and objectivity of the nicial statements contained in this document. Management is also responsible for the consistency of reporting this information and for ensuring that generally accepted accounting principles are used.

In discharging this responsibility, management maintains a comprehensive system of internal controls and supports an extensive program of internal audits, has made organizational arrangements providing appropriate divisions of responsibility and has established communication programs aimed at assuring that its policies, procedures and codes of conduct are understood and practiced by its employees.

The financial statements of Sprint have been audited by Ernst & Young LLP, independent accountants, who have also issued a report on the condensed financial statements. Their audits were conducted using generally accepted auditing standards.

The Board of Directors' responsibility for these financial statements is pursued mainly through its Audit Committee. The Audit Committee, composed entirely of directors who are not officers or employees of Sprint, meets periodically with the internal auditors and independent auditors, both with and without management present, to assure that their respective responsibilities are being fulfilled. The internal and independent auditors have full access to the Audit Committee to discuss auditing and financial reporting matters.

William T. Esrey

Chairman and Chief Executive Officer

ur B. Krause

Executive Vice President and Chief Financial Officer



Spotlight

1998 Year in Review

J.D. Power, Data Communications magazine honor Sprint.

Sprint won three significant industry-wide awards for 1998: 1) J.D. Power and Associates' top ranking for overall customer satisfaction among high-volume long distance customers; 2) *Data Communications* magazine's "Tester's Choice" award for the industry's top-performing Internet Protocol backbone network; and 3) *DataComm's* "Hot Products" award for the revolutionary *Sprint ION* network.

Data Communications magazine gave Sprint its highest ranking in all Internet categories evaluated.

December 7

Sprint is leveraging its technological expertise in local telephone communications to support the rollout of *Sprint ION* on a nation-wide scale. Using a One Sprint approach, a new organization also will draw upon the company's long distance and wireless resources to design and build local broadband networks on a national basis.

Board of Directors

DuBose Ausley is chairman of Ausley & McMullen, a law firm in Tallahassee, Florida. He is also chairman of the Capital City Bank Group, Inc. He has been a Sprint director since 1993. Ausley is a member of the organization, compensation and nominating committee and the capital stock committee.

Warren L. Batts is the retired chairman and chief executive officer of Tupperware Corporation in Orlando, Florida. He is also the retired chairman of Premark International, Inc. He has been a Sprint director since 1982. Batts is chairman of the audit committee and a member of the capital stock and executive committees.

Michel Bon is chairman of France Telecom. From 1993 to September 1995, he was head of France's national job placement agency. Prior to that he was chairman and chief executive officer of Carrefour, the largest retailer in France. He has been a Sprint director since 1996. Bon is a member of the executive and the capital stock committees.

William T. Esrey is chairman and chief executive officer of Sprint. He joined Sprint in 1980 as executive vice presidentcorporate planning, was named president and chief executive officer in 1985 and became chairman and chief executive officer in 1990. He has been a Sprint director since 1985. Esrey is chairman of the Board's executive committee.

Irvine O. Hockaday Jr. is president and chief executive officer of Hallmark Cards, Inc., in Kansas City, Missouri. He became a Sprint director in 1997. Hockaday is a member of the audit committee and chairman of the capital stock committee.

Harold S. Hook is the retired chairman and chief executive officer of American General Corporation, in Houston, Texas. He has been a Sprint director since 1982. Hook is a member of the audit and the capital stock committees.

Ronald T. LeMay is president and chief operating officer of Sprint, a position held since February 1996, except for the period of July to October 1997, when he served as chairman and chief executive officer of Waste Management, Inc. Prior to that, he was vice chairman of Sprint, and chief executive officer of Sprint Spectrum L.P. (Sprint PCS). From 1989 to 1995, he was president and chief operating officer of the long distance division of Sprint, LeMay served as a Sprint director from 1993 until July 1997. He was re-elected as a Sprint director in 1997.

Linda Koch Lorimer is vice president and secretary of Yale University, in New Haven, Connecticut. She has been a director of Sprint since 1993. She is a member of the capital stock and the organization, compensation and nominating committees.

Charles E. Rice is vice chairman-corporate development of Bank of America. He has been a Sprint director since 1975. Rice is a member of the capital stock, the executive and the organization, compensation and nominating committees.

Ron Sommer is vice chairman of the board of management of Deutsche Telekom A.G. From 1989 until May 1995, he worked for the German subsidiary of the Sony Group, where he was last responsible for the 22 European subsidiaries as the head of Sony Europe. He has been a Sprint director since 1996. Sommer is a member of the capital stock and the organization, compensation and nominating committees.

Stewart Turley is the retired chairman of Eckerd Corporation, in Clearwater, Florida. He has been a Sprint director since 1980. Turley is chairman of the organization, compensation and nominating committee, and a member of the capital stock and the executive committees.

Principal Corporate Officers

William T. Esrey

Chairman and Chief Executive Officer

Ronald T. LeMay

President and Chief Operating Officer

J. Richard Devlin

Executive Vice President General Counsel and External Affairs

Arthur R Krause

Executive Vice President Chief Financial Officer

Kevin E. Brauer

President

National Integrated Services

Michael B. Fuller

President

Local Telecommunications Division

Patti S. Manuel

President

Long Distance Division

Andrew J. Sukawaty

President Sprint PCS

John E. Berndt

President

Sprint International

Gene M. Betts

Senior Vice President

Treasurer

Arthur A. Kurtze

Senior Vice President

One Sprint

Strategic Development

John P. Meyer

Senior Vice President

Controller

Theodore H. Schell

Senior Vice President Strategic Planning

and Corporate Development

I. Benjamin Watson

Senior Vice President **Human Resources**

Thomas E. Weigman

Senior Vice President Consumer Market Strategy and Communications

Don A. Jensen

Vice President

Secretary

Shareholder Information and Common Stock Data

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m., Tuesday, April 20, 1999, at the world headquarters.

Common Stock Dividends

Dividends on the FON Stock, declared by the Board of Directors, are usually paid quarterly at the end of March, June, September and December. The exact record dates and payment dates are set by the Board of Directors. The last quarterly dividend payment in the fourth quarter 1998 was 25 cents per FON share, or an indicated annual dividend of \$1.00 per FON share.

Sprint does not expect to pay dividends on the PCS Stock for the foreseeable future.

Investor Information Line

Requests for the information shown below may be made in writing or by calling the Sprint Investor Information Line at (800) 259-3755.

Automatic Dividend Reinvestment Plan

Sprint offers a dividend reinvestment and stock purchase plan to registered FON common stock shareholders at no commission or handling charge for purchases made with reinvested dividends and/or optional cash payments. Shareholders may obtain information about the plan by writing to Shareholder Relations at the corporate headquarters or by calling the above 800 number.

Common Stock Data

Market Price					
High	Low	End of Period			
75 5/8	551/4	67 ¹¹ /16			
75 5/8	65	70 ½			
801/8	61 1/2	72			
82 ⁷ /8	691/ 16	81 5/16			
85 ⁵ /16	71 ⁵ /8	84 1/8			
233/8	141/16	231/8			
48	383/8	453/8			
52 ³ / ₄	421/4	521/4			
52 ⁵ /8	44	50			
605/8	483/4	58 ⁵ /8			
	755/8 755/8 801/8 827/8 855/16 233/8 48 523/4 525/8	High Low 755/8 551/4 755/8 65 801/8 611/2 827/8 691/16 855/16 715/8 233/8 141/16 48 383/8 523/4 421/4 525/8 44			

⁽¹⁾Fourth quarter per share market data is for the period October 1, 1998, through November 23, 1998.

Form 10-K

Copies of Sprint's Annual Report on Form 10-K to the Securities and Exchange Commission may be obtained by shareholders without charge by writing to Investor Relations at the corporate headquarters or by calling the 800 number.

Investor Inquiries

Security analysts, shareholders and investment professionals should direct inquiries regarding Sprint and its business in writing to Investor Relations at the corporate headquarters or by calling the 800 number. Copies of the investor supplement to the Annual Report are available upon request.

Shareholder Inquiries

Inquiries regarding stock transfer, lost certificates, direct deposit of dividends or address change should be directed to the stock transfer agent, UMB Bank, n.a., in writing at the address shown below or by calling (800) 259-3755 and connecting with the transfer agent.

Quarterly Financial Information

Shareholders can receive a faxed or mailed copy of the quarterly financial results upon request through Sprint's toll-free Shareholder Information Line. Shareholders can dial (800) 284-6977 to hear a recorded report on Sprint's financial performance and request a copy of printed quarterly results.

Sprint on the Internet

Sprint's World Wide Web site — www.sprint.com — is continuously updated and includes an electronic version of this annual report. Shareholders are also invited to visit Sprint's home page at this Internet address for quarterly financial data, important news releases and current information about products and services.

Corporate Headquarters Mailing Address

Sprint

Post Office Box 11315 Kansas City, Missouri 64112

Shareholder Relations

(913) 624-2541

Auditors

Ernst & Young LLP, Kansas City, Missouri

Stock Transfer Agent, Registrar and Dividend Paying Agent

UMB Bank, n.a. Post Office Box 410064

Kansas City, Missouri 64141-0064

(816) 860-7786

Dividend Reinvestment Agent

UMB Bank, n.a. Kansas City, Missouri

New York Stock Exchange Listings

FON Common Stock
PCS Common Stock
Convertible Preferred Stock

Stock Symbols: FON

PCS

⁽²⁾ FON Stock and PCS Stock per share market data is for the period November 24, 1998, through December 31, 1998.

What Makes Sprint an Industry Leader?

Sprint is at the forefront in integrating long distance, local and wireless communications services. And because Sprint is one of the industry's largest and fastest-growing companies, it has been successful in assembling an elite team of innovative telecom professionals.

Sprint's ranking of first in customer satisfaction by J.D. Power and Associates is clear evidence that outstanding employees are attracted to the most customer-focused company in the industry. Sprint offers professional training and employee development through its University of Excellence, a nationally recognized training organization. In addition, Sprint has been ranked first in employee talent by Fortune magazine in its 1999 annual survey of America's "Most Admired Companies."

Sprint World Headquarters

2330 Shawnee Mission Parkway Westwood, KS 66205 (913) 624-3000

FON GROUP

Sprint's Long Distance Division

Headquarters

8140 Ward Parkway Kansas City, MO 64114 (913) 624-6000

Sprint Business

(Businesses, state and local governments, universities and pay phone markets)

Business Marketing 5420 LBJ Freeway Dallas, TX 75240 (972) 405-5000

Consumer Services Group

(Residential customers)

8140 Ward Parkway Kansas City, MO 64114 (913) 624-6000

Government Services Division

(Federal government)

13221 Woodland Park Drive Herndon, VA 20171 (703) 904-2000

Sprint Paranet

(Computer network services)

1776 Yorktown Suite 700 Houston, TX 77056 (713) 626-4800

Wholesale Services Group

(Wholesale solutions)

8140 Ward Parkway Kansas City, MO 64114 (913) 624-6365

Sprint's Local Telecommunications Division

Headquarters

5454 W. 110th Street Overland Park, KS 66211 (913) 345-7600

Sprint North Supply

600 New Century Parkway New Century, KS 66031 (913) 791-7000

Sprint Publishing & Advertising

7015 College Boulevard Suite 400 Overland Park, KS 66211 (913) 491-7000

Sprint ION

National Integrated Services

7301 College Boulevard Overland Park, KS 66210 (913) 534-6231

Ventures

EarthLink Sprint

3100 New York Drive Pasadena, CA 91107 (626) 296-2400

Global One

(Corporate and European headquarters)

Park Atrium Rue des Colonies 11 B-1000 Brussels, Belgium (011) 32-2-545-2000

(World headquarters)

12490 Sunrise Valley Drive Reston, VA 20196 (703) 689-6000

Sprint International

2330 Shawnee Mission Parkway Westwood, KS 66205 (913) 624-3000

PCS GROUP

Wireless

Sprint PCS

4900 Main Street Kansas City, MO 64112 (816) 559-1050

Trademarks and service marks owned or licensed by Sprint and its subsidiaries are indicated by special type throughout this publication

RadioShack is a service mark of the Tandy Corporation

Sprint celebrates 100 years of service



On October 26, 1999, Sprint will celebrate its 100th anniversary.

The Brown Telephone Company, founded by Cleyson Leroy Brown, began in 1899 in Abilene, Kansas. The company, which would later be known as Sprint, opened its first long distance circuit in 1900.

Throughout 100 years of service, Sprint has welcomed change, produced growth and seized opportunity. Our roots are important to us. They remind us of how much we've grown, how much our world and our industry have changed, and how much we can yet achieve by remaining committed to Sprint's vision: To be a world-class telecommunications company — the standard by which others are measured.



The USA's New No.1 Telecom Company

Fortune magazine's 17th annual survey of America's "Most Admired Companies" produced a new, clear-cut No.1 in the overall telecommunications category. In the 1999 survey of 10,000 top executives, outside directors and securities analysts, Sprint swept the competition in the telecom sector and was ranked first in all eight categories of corporate reputation:

Sprint ... First in Innovation

Sprint ... First in Quality of Management

Sprint ... First in Employee Talent

Sprint ... First in Quality of Products and Services

Sprint ... First in Long-term Investment Value

Sprint ... First in Financial Soundness

Sprint ... First in Social Responsibility

Sprint ... First in Use of Corporate Assets



Sprint ... the nation's new telecommunications leader and your essential ally.



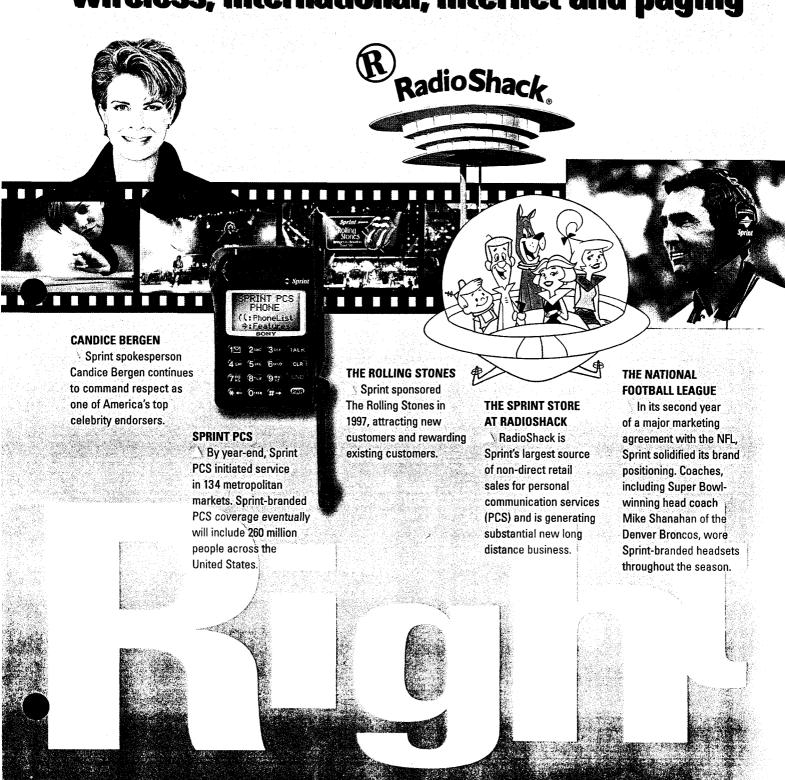
SPRINT'S

1997 Annual Report





"Others are spending tens of already has ... an unparalleled wireless, international, Internet and paging



billions to get what Sprint position across local, long distance, markets." — William T. Esrey

INTEGRATED : *** **COMMUNICATIONS**

Sprint helps consumers wrap up all their communications services into one package. Sprint Selections is one source for simplified billing and monthly savings.

SPRINT SENSE

`∖ *Sprint Sense* has been enhanced numerous times since its launch and is now among the longest running and most successful products in the communications industry.

INTERNET

Sprint is deploying high-speed Internet access to its customers nationwide. This should bring a significant increase in productivity for business and consumer users of the Internet.

Table of Contents

Chairman's Letter Consumer Markets Strategic Overview Business Markets Strategic Overview 10 Carrier Markets Strategic Overview 14 1997 Year in Review 16 Sprint at a Glance 24 Financial Section and Corporate Information



SPRINT PAGING

 Some messages are just too important to leave waiting on an answering machine. If you're on the go - or want to stay connected with someone who is-Sprint paging keeps you in touch.

GLOBAL ONE

The goal of Global One - Sprint's joint venture with communications giants France **Telecom and Deutsche** Telekom-is to become the preferred choice for multinational companies, carriers and customers.





Just about all Sprint has done this year is have its stock outperform almost every other large telecommunications carrier..."

- The New York Times, October 24, 1997

Sprint: It all happens here ...

Dear Shareholder:

Consolidated Net

Sprint's net operating

strong growth in the

revenues have increased

37% since 1993, reflecting

company's core businesses.

Operating Revenues

The humorist Dave Barry noted recently that the economy continues to boom, primarily because of the millions of new jobs created by the telecommunications industry's massive effort to change every area code in America every two months.

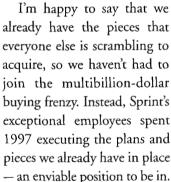
Mr. Barry is right that the industry is in a state of change - but it goes far beyond area codes. This past year telecom companies have been buying each other up left and right. They are preparing for the day when a company will be able to offer consumers a complete package of services, including local, long distance, wireless and Internet access — in the nation and across the globe.

> And what has Sprint been going on?

Since we do possess such us the moon and the stars, it

would be our responsibility to consider it. But, quite frankly, Sprint has the execution prowess to continue to be the master of its fate. This is what has allowed us to accomplish so much over the years.

doing while all this has been



- an enviable position to be in. valuable assets, this has led to speculation that Sprint is "on the block." If someone offered

The important point is that we have the critical economic, technological and marketing mass to go it alone. That is clearly our plan. And that is how we intend to proceed as long as we can expect the kind of returns that have made Sprint such a good investment. Over the last 10 years, we have provided a 23% average annual return, which beats local carrier and long distance indices, as well as the indices of the broader market. Our core businesses enjoyed record profits again this year.

Since the industry is so focused on putting together "the package," let me brief you on what Sprint has assembled.

LONG DISTANCE Last year, we were again the fastest growing of the big three long distance carriers with revenues up 8% for the year, operating income up 14% and calling volumes up 14%. According to the J.D. Power survey, we were again rated number one in customer satisfaction. Our Sprint Sense flat-rate calling plan continues to be very well received in the residential market, and our Fridays Free program has helped us achieve double-digit increases in the low-end business market. In fact, FORTUNE magazine recently wrote: "...Sprint's marketing department is the best in the business; its innovations, like flat-rate pricing plans, have been aped by everyone else."

LOCAL Our local business, which serves 7.4 million customer lines in 19 states, outpaced the RBOC averages in several key measures: our revenue grew 4% in 1997, and operating income increased 9%. Access lines grew at an industry-leading 5.6%, excluding sales of local exchanges in 1997. One of the great opportunities our local division offers Sprint - in addition to solid profits - is that we are able to learn a great deal about our customers' preferences for packaged services. This

Financial Highlights

(in millions, except per share and employee data)	1997	1996	% Change
Net operating revenues			
Long distance division	\$ 8,954.8	\$ 8,302.1	8%
Local division(1)	\$ 5,231.7	\$ 5,013.3	4%
Product distribution and directory publishing(1)	\$ 1,445.1	\$ 1,214.3	19%
Core businesses	\$14,816.5	\$13,887.0	7%
Emerging businesses	\$ 57.4	\$ 0.5	
Consolidated	\$14,873.9	\$13,887.5	7%
Income from continuing operations(2)	\$ 921.0	\$ 1,226.9	(25)%
Earnings per share from continuing operations ⁽²⁾			
Basic	\$ 2.14	\$ 2.91	(26)%
Diluted	\$ 2.11	\$ 2.87	(26)%
Dividends per common share	\$ 1.00	\$ 1.00	_
Total assets	\$18,184.8	\$16,826.4	8%
Employees (year-end)	50,602	48,024	5%

⁽¹⁾ In July 1997, Sprint changed its transfer pricing for certain transactions between affiliates. Consolidated results were not affected. Net operating revenues for the local and product distribution and directory publishing (PDDP) divisions assume these changes occurred at the beginning of 1996. Actual 1997 net operating revenues for the local division were \$5,290.2 million in 1997 and \$5,126.8 million in 1996. PDDP revenues were \$1,454.3 million in 1997 and \$1,225.4 million in 1996.

⁽²⁾ Sprint recorded nonrecurring litigation charges within the long distance division of \$20 million in 1997 and \$60 million in 1996. Also in 1997, Sprint recognized gains of \$71 million related to sales of local exchanges and an investment in an equipment provider. Including these items, 1997 income from continuing operations was \$952.5 million (\$2.21 per basic share) and \$1,190.9 million (\$2.82 per basic share) in 1996.

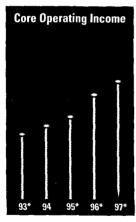


"Sprint is arguably the most innovative of the big carriers in recent years, having pioneered mass-market acceptance of flat-rate pricing."

- Washington Post, September 6, 1997

▶ 42 knowledge will serve us well as we expand our local service offerings across the country. Sprint is in the midst of drawing up plans for that right now. We are cautiously optimistic that we can be competing in local markets dominated by the Bell companies within one year to 18 months. We plan to come to market with services that are distinctive and compelling.

WIRELESS As of the end of 1997, Sprint's wireless endeavors offered service in 134 metropolitan markets and will add another 100 markets by early 1999. By the end of this year, the Sprint-branded PCS network will cover more than half of the U.S. population. As the only company with a single nationwide frequency, utilizing a common digital technology and marketed under a widely recognized brand, we will have a very strong competitive advantage as the wireless market grows.



Core results exclude joint ventures and emerging businesses.

*Excludes nonrecurring charges

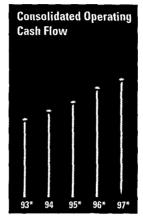
Sprint's core business operating income has grown by 76% since 1993.

GLOBAL The market for international telecommunications services is estimated to be at least three to four times the size of the U.S. market. Global One, our partnership with France Telecom and Deutsche Telekom, achieved strong market acceptance in 1997 with revenues of more than \$1 billion.

We experienced disappointing progress toward profitability because of shortcomings mainly on the cost side, which we are correcting. Sprint continued to complement its overall

international strategy through other alliances, including activities in Canada, Mexico, Israel and China.

DATA On the strength of its technology, Sprint has a powerful position in data communications. One of the nation's leading telecom publications named our chief



Operating cash flow equals operating income plus depreciation and amortization.

*Excludes nonrecurring charges

Sprint's operating cash flow has shown a strong and steady upward trend, growing by 50% since 1993. technology officer, Marty Kaplan, as 1997 Technologist of the Year. Using technology called Wavelength Division Multiplexing, the Sprint team was able to expand capacity on our advanced fiber-optic network by a factor of 16.

As a result, we are well prepared to expand on our number one market share in packetbased data services, which break data information into cells to increase network efficiency and performance. These services represent the high-speed switching standards of the future, including such technologies as ATM and Frame

Relay. A large part of Sprint's data positioning comes from the company's role as a leader in Internet backbone services. We also have entered the market as an Internet access provider. Our recently announced alliance with EarthLink Network, Inc. will create a combined base of 600,000 Internet access customers, and enable Sprint to build its brand equity and market share in this rapidly growing segment.

With our recent acquisition of Paranet, we also greatly improved our ability to offer customers end-to-end data network management services.

BRAND One market researcher has said that branding is "the neon in your name." There is increasing neon in the Sprint name. We have seen data that suggest our brand recognition is approaching par with AT&T. We have strengthened our brand exposure through an exclusive sponsorship agreement with the

THE WINNING TEAM

➤ Opposite page, from left: Super Bowl champion quarterback John Elway, Sprint/RadioShack advertising star George Jetson, The Rolling Stones rock and roll icon Mick Jagger and Sprint Chairman Bill Esrey.

National Football League and our nationwide association with RadioShack. Sprint's "store within a store" at RadioShack sells Sprint long distance, PCS, Internet access, prepaid calling cards and Sprint-branded telephone equipment.

Along with the many successes we enjoyed over this last year, we also suffered one very personal loss — the death of Paul Henson, our former chairman. He presided over this company as it grew from a relatively small Midwestern company called United Utilities into the company we today call Sprint. Paul was a gentleman of integrity and vision. I was always struck by how very open he was to the future.

Open to the future is how Sprint intends to honor Paul's memory, and it is how we intend to go forward into the 21st Century.

Sincerely,

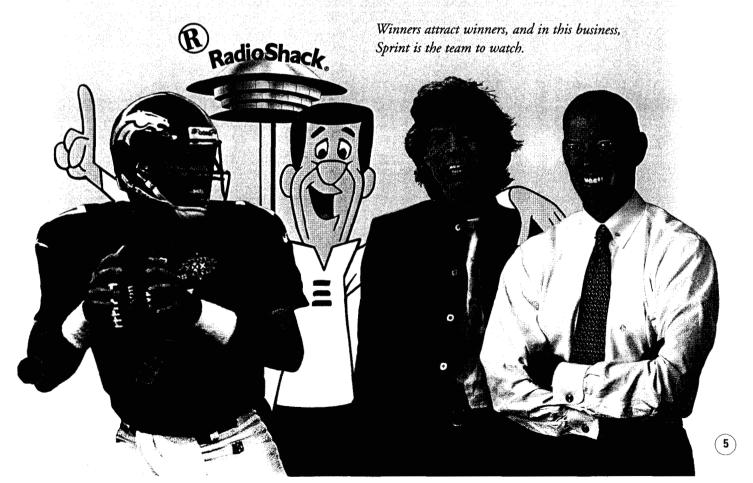
Bill Esney

William T. Esrey
Chairman and Chief Executive Officer
March 4, 1998

Best in the Business

In early 1998, FORTUNE magazine wrote: "... Sprint's marketing department is the best in the business..." We are the best in a business driven by sound and innovative marketing. We are the best for a multitude of reasons. Foremost among them:

- Another successful year as the official telecommunications sponsor of and exclusive telecommunications provider for the National Football League.
- ➤ A powerful new distribution arrangement with retail giant RadioShack and a national television advertising blitz featuring the widely known cartoon family, the Jetsons.
- ► A high-visibility sponsorship with The Rolling Stones, who finished the year as, by far, the leading entertainment act in the country.



"In a year in which AT&T and MCI would play nice and ultimately fade from consumers' view, Sprint — long considered the

other long-distance phone company — has never appeared so battle ready and certainly never as hip."

- Brandweek, October 20, 1997

It all happens here...

The vision of packaged and integrated communications has been a much-discussed topic in the telecom industry, and for good reason.



The local division is well positioned to provide vertical network services, such as Caller ID, Call Waiting, Three-Way Calling and MessageLine voice mail.

A 1996 survey found that if they could, two-thirds of U.S. households would choose a single company for their communications and entertainment needs. So it is no surprise that telecom providers want to provide it all: long distance, local, wireless and data (including Internet service).

The challenge is to bring these capabilities together on a large scale. This calls for advanced technology, comprehensive marketing, extensive distribution channels, and first-rate support for customers. We are confident that

Sprint has the entire set of fundamental assets needed to succeed in this environment.

In the consumer market, Sprint already has a strong position across the long distance, local and wireless segments.

We are successfully building on our base of more than 9.5 million residential long distance customer accounts. As competition comes to the local market, we begin

with a strong foundation of nearly 5.3 million residential access lines in 19 states. The new Sprint PCS joint venture is moving aggressively to offer digital wireless service nationwide. Even with its network

SAN FRANCISCO TREAT

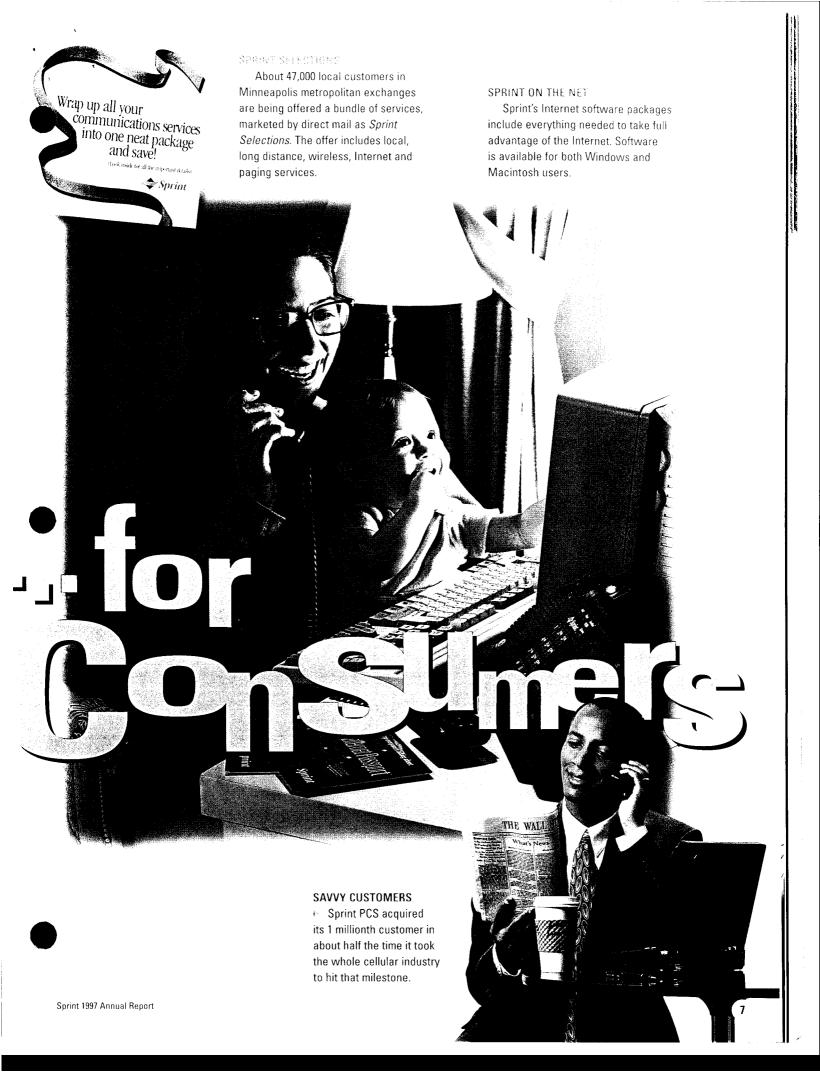
By purchasing paging bundled with a Sprint long distance program, small businesses can reduce rates on certain calling plans. still under construction, Sprint PCS already has more than 1 million customers.

Each of these key businesses is growing well on a stand-alone basis.

On the strength of its innovative calling plans, Sprint signed up 15% more residential customers in the fourth quarter of 1997 than it did in the fourth quarter of 1996. Having pioneered flat-rate long distance pricing, Sprint's consumer services group continues to enhance its *Sprint Sense* calling plan. For example, in 1997 we extended flat-rate pricing to international calling.

In its local markets, Sprint's residential access line growth continued at a healthy 5% annual clip in 1997, excluding the sales of local exchanges. Much of that growth came as customers added second lines to their homes. Sales were also strong for enhanced services such as Call Waiting and Caller ID. We see substantial opportunities for further market penetration with these and other value-added services.



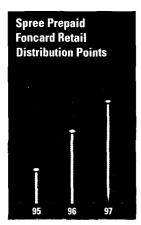




"Sprint has done an outstanding job in maintaining its position as a premier service provider to its residential customers."

— Brian Adamik, Vice President of Consumer Communications Research, The Yankee Group, November 3, 1997

■7 Meanwhile, the Sprint PCS joint venture is rapidly
positioning itself on a nationwide scale. As the year
came to a close, Sprint PCS had initiated service



Sprint now has more than 33,000 outlets selling its prepaid Foncards, including RadioShacks, gas stations and convenience stores.

in 134 metropolitan markets. More than 100 additional markets will be in service by early 1999. Today, Sprint PCS services cover about a third of the U.S. population. They will reach more than half the U.S. population by the end of 1998. Eventually, Sprintbranded PCS coverage will include nearly 260 million people throughout the country.

With industrywide penetration of the wireless market expected to double in the next five years — to as high as 50% — the prospects for growth are very bright indeed.

Our future growth will be built, in large part, on the merits of brand awareness.

All Sprint-branded products — whether long distance, local or wireless — benefit from our brand investment. During the past year, the Sprint name enjoyed its greatest exposure ever.

As recognized by the prestigious publication *Brandweek* (which named our long distance consumer group president, Tom Weigman, as its Marketer of the Year), Sprint has moved to the forefront as an innovative marketer of communications. We now benefit from brand awareness that is approaching par with the much older AT&T brand.

Sprint's innovative brand awareness push included its role as the National Football League's official telecommunications provider. This was the second season of our three-year alliance with the NFL.

COAST TO COAST

Sprint's Dime Van visits college campuses from coast to coast. This stop at UCLA helped Sprint's college marketing team to its best financial performance ever.

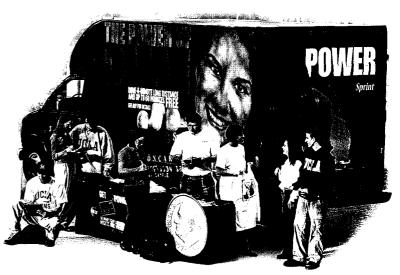
During the six-month NFL season, we creatively reinforced the Sprint brand to 160 million NFL fans. Successful promotions tied to Monday Night Football, the Super Bowl and NFL games across the nation have had a positive impact on sales.

At the same time, our sponsorship of The Rolling Stones tour was productive in attracting new customers and in rewarding existing customers.

Our track record in customer satisfaction is another important factor in the strength of the Sprint brand. Sprint maintained its lead for the third straight year in the J.D. Power and Associates study of high-volume long distance users. We also received top honors in The Yankee Group's 1997 Technologically Advanced Family survey. Sprint ranked first in all eight of the survey's categories for the third year in a row, and led the long distance market in the quality of service category for the fourth consecutive year.

With customers' high level of trust in the Sprint brand and our demonstrated ability to improve brand visibility, Sprint is well positioned to grow in the consumer marketplace.

The most exciting potential for growth will come as we more fully unleash the synergies of Sprint's diverse assets.



This process is underway now. In the last few years, Sprint's long distance and local divisions have cooperated h several cross-marketing opportunities. In 1997, we took the next step, by marketing local, long distance and wireless products together on a widespread basis for the first time.

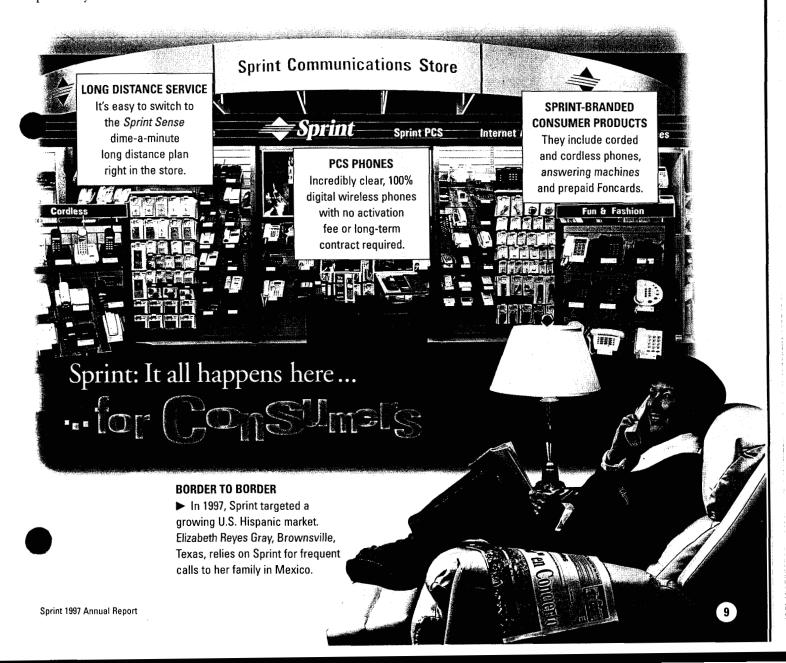
With our RadioShack alliance, a complete array of Sprint-branded products and services are marketed through a single channel. During the year, we launched the Sprint "store within a store" concept in 6,000 RadioShack stores nationwide. One million people visit these stores every day. When they walk through the doors, they are within arm's reach of the full complement of our products — including long distance, Sprint PCS, Internet access, prepaid cards and Sprint-branded telephone sets. Those potential customers are served in person by a sales force of more than 25,000 RadioShack

employees, specially trained to sell our products.

Along with this, our local division has reorganized to achieve a sharper marketing focus. Instead of aligning around separate companies serving their own geographic territories, our local operations are now fully unified. Like our long distance business, Sprint's local division is focused on consumer, business and carrier markets. This enables us to market the entire range of Sprint-branded products more effectively and efficiently to our existing local customers. It also gives us valuable experience that we can apply when the conditions are right to expand into newly competitive local markets across the nation.

THE SPRINT STORE AT RADIOSHACK

▼ RadioShack is within a five-minute drive for 94% of the U.S. population.



"...Sprint may now come closest to offering that vaunted bundle of telecommunications services that has become the goal of

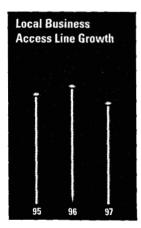
almost every large communications company: local and long-distance telephone service, Internet access, wireless communications and a respectable international presence."

- The New York Times, October 24, 1997

Sprint: It all happens here...

Sprint's ability to deliver full-service capability is especially critical to business customers.

Advanced communications create many new opportunities for customers to improve their business performance. To get the most out of those opportunities, businesses are requiring close consultation from their telecom providers. Sprint is responding, customer by customer. We study a company's special business needs. We work with each company individually to design a portfolio of services that helps its managers increase their sales and efficiencies.



Over the past three years, Sprint's annual growth rate for business lines was 9.1%, while the average industrywide rate was 6.4%. The industry average includes the Regional Bell Operating Companies, GTE and Sprint. This collaborative approach has earned Sprint a large and loyal band of business customers — including 1.3 million long distance customer accounts, and more than 2 million local business lines served. The results were reflected in our performance in 1997.

In the long distance division, both our high-end and low-end business markets generated double-digit revenue growth in 1997. Volume growth from high-end business customers increased more than 15% in 1997. Total volume from low-end business customers grew more than 25% over the same period.

Much of this growth from small businesses was fueled by the continued success of our Fridays Free promotion. Since its launch in 1996, Fridays Free has helped Sprint long distance increase its small business accounts by more than 15%.

In our local division, we posted strong revenues from business markets in 1997. This included continued successes in such markets as health care, education and government.

Sprint is capitalizing on its business market momentum through its leadership in data communications and digital technology.

Much of Sprint's strategy in the business sector stems from a radical shift in the kind of services customers need and expect. Today, telecom networks carry about 80% voice calls and 20% data. According to some projections, those proportions will be reversed in as little as six years. A significant portion of this data explosion is due to business use of the Internet and intranets.

Telecom carriers with the best data networks will have an inside track in satisfying the demands of business customers. The unique architecture of Sprint's nationwide, 100% digital, fiber-optic network enables us to combine advanced network technologies in ways that produce unsurpassed bandwidth, speed and survivability.

Our technological virtuosity has been a crucial factor in securing a data leadership position for Sprint. A report by International Data Corporation recognized Sprint as the market-share leader in such packet data services as Frame Relay, Asynchronous Transfer Mode (ATM) and X.25. In a 1997 survey by *Data Communications* magazine, users gave Sprint the highest single score in the switched digital category. High levels of customer satisfaction helped our long distance ATM, Internet Protocol and Frame Relay revenues rise 70% in 1997.

Sprint is in an excellent position to benefit from high growth rates in packet-based services. We foresee continued growth potential as additional technologies become available.



"... Sprint has catered to the business market in long distance, where its all-digital network gave it a leg up in high-speed

--- Forbes, February 23, 1998

◄11 The full power of Sprint's digital technology will soon burst through the local network.

Sprint is pursuing a multifaceted strategy designed to bring the full benefits of digital communications to its customers — not just on our national network, but right to their places of business, and in their homes as well.



Source: International Data Corporation

Sprint leads the industry in packet-based data communications. The total market opportunity in this category is projected to more than triple from 1997 to 2001.

The Sprint PCS venture, for example, will provide a 100% digital wireless connection. By using a single digital technology, Sprint PCS will be the only PCS provider with a consistent national service platform. This gives us an edge in developing integrated products and services, both for businesses and for consumers.

On the wireline side, our existing local markets are served by nearly 100% digital switching. Building on that platform, we are focusing on deploying fiber-optic cable further into our local networks.

In early 1998, Sprint joined a working group of major

telecom and information technology companies to develop Asymmetric Digital Subscriber Line (ADSL) technology. When fully developed, ADSL will enable customers to use existing copper telephone lines for high-speed Internet access up

to 30 times faster than today's dial service.

We are also extending the power of Sprint's packet-based long distance network by making high-speed broadband communications available locally in the nation's top

FRIDAYS FREE FOR AA2Z

➤ Connie Kramer runs
AA2Z Typesetting out of
her home in Oceanside,
California. That means
Fridays are free in her
office. She uses Sprint
for both local and long
distance communications.

75 metropolitan areas. As part of this initiative, we are contracting with local exchange carriers to construct fiber-optic rings. These rings use the same unique configurations now operating on Sprint's long distance network. They are currently operating in 16 of the nation's top metropolitan areas, with more than 30 targeted by year-end 1998.

The end result of all these investments is that Sprint is rapidly expanding its ability to provide business customers what they most need to realize the full benefits of communications: reliable bandwidth on demand, with end-to-end connectivity.

Beyond network capacity itself, businesses are also looking for expertise in managing their voice, video and data applications. We have long offered a variety of sophisticated network management services to the business market. With our recent acquisition of Paranet, Sprint can now provide data management services that extend from the wide area network to the local area network and all the way to the desktop.

We also give customers the voice, video and data connections they need to do business on a global scale.

For our business customers, the most important of Sprint's international investments is the Global One partnership with France Telecom and Deutsche Telekom.



Global One's presence in more than 65 countries gives it the largest geographic coverage of any international communications alliance. Using a technologically advanced global backbone network, Global One offers access to the world through a single point of contact.

SEEING THE FUTURE FIRST

▼ Massachusetts-based Weather Services International (WSI) Meteorologist Terry Casey, left, and WSI Data Communications Specialist Dawn Thompson rely on Sprint for national forecasts. "Sprint makes things easy," Thompson says.

MISSION CRITICAL SERVICE

▼ St. Louis-based Bridge Information Systems provides real-time financial information to international brokerage houses. "If a Bridge client is down two seconds, it's too long," says Rob McCormick, the company's chief technology officer-global communications. "Sprint focuses on data. Their people understand it. That's why they're the leader."



"Sprint's biggest trump card is having the nation's most advanced backbone network. The company is implementing a \$100-million

Sonet fiber-ring backbone with ATM switches, capable of handling trillions of bytes of multimedia traffic."

- CommunicationsWeek, September 16, 1996

Sprint: It all happens here...



According to a 1997 analysis by ATLANTIC-ACM, the long distance wholesale market is expected to more than double from 1994 to 1998. Sprint's network technology opens many doors.

Our leading-edge capabilities support innovative product development, while they also increase efficiencies and create a competitive cost advantage. These are vital at a time when deregulation will inevitably bring new entrants into all the key markets we serve. While Sprint will expand its business aggressively, it is an inescapable fact that new competitors will also gain a share of the market. As this happens, their need for network capacity will grow. We

believe these providers will continue to be attracted to the advantages of our technology, giving Sprint a prime opportunity to put profitable traffic on its network by selling excess capacity on a wholesale basis.

The wholesale market will grow across the board: in long distance, in local markets and on the global front.

Sprint's long distance division is already attracting increased usage by resellers. The division's wholesale group achieved volume growth of more than 30% in 1997. We have already signed up four of the seven original Regional

FASTEST-GROWING CITY

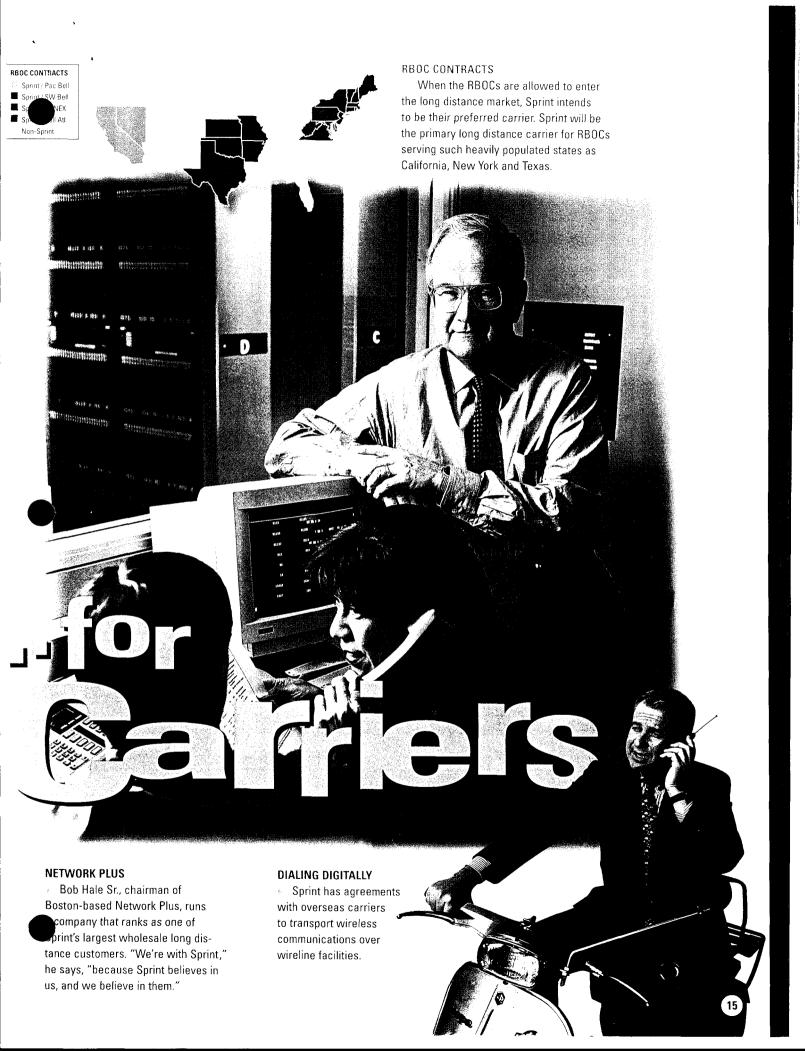
► The Las Vegas valley is the fastest-growing community in the country with more than 76,000 new residents in 1997. Sprint is installing fiber optics to the curb in many new housing developments, offering residents the most innovative products and services. Sprint also leases local network capacity to its competitors.

Bell Operating Companies (RBOC) for long distance transport services. Our objective is to strengthen Sprint's position further by selectively expanding our product offerings, along with a customer support structure that sets us apart in the eyes of resellers. This includes both traditional telecom companies and nontraditional resellers, such as utilities.

New competitors have been slow to enter our existing local territories, but over time deregulation will also bring new entrants to these markets. We believe the high quality of our local networks will make Sprint a very attractive wholesale provider in this arena as well.

Internationally, our Global One partnership with Deutsche Telekom and France Telecom has firmly established itself as a leader in the carrier services market. By the end of 1997, Global One served 88 international carriers. Deregulation of international telecommunications markets is expected to open many new opportunities for Global One in Europe, Asia, North America and Latin America.





Getting It Right

SOLUTIONS WITH A SMILE

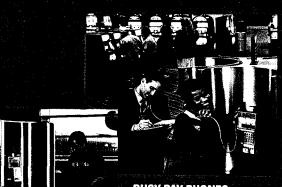
▼ Aaron Works, a business solutions specialist at Sprint's Business Solutions Center in Louisville, Kentucky, helps solve communications problems for small- and medium-size businesses.



right places at the night thines

A PCS PHONE FOR EVERYONE

▼ Sprint has a variety of wireless phone choices for its PCS customers, ranging from palm-sized digital phones to combination PCS/cellular phones.



BUSY PAY PHONES

■ The international airports at two of the nation's top tourist-attraction cities — Orlando, left, and Las Vegas, above — are busy, and so are Sprint pay phones. Sprint has exclusive pay phone contracts with both airports.



MILESTONE ACHIEVEMENT

▼ On June 12, 1997, Sprint's stock d \$50 a share for the first time. Investors are recognizing that Sprint has the strategy, the technology, the marketing power, the partners and, above all, the people to outperform the competition and deliver superior financial results.

JUNE 12, 1997

EVA: An Important Tool

Economic Value Added (EVA) is an important tool for Sprint management. EVA indicates how efficiently a business uses its assets to maximize shareholder value. Measured by EVA. Sprint's core businesses generated more than \$400 million in returns above and beyond the cost of capital in 1997.

(Sprint defines EVA as after-tax operating profits minus the cost of debt and equity capital used to produce those profits.)



SKILLED WORK FORCE

► Sprint's highly skilled employee team is committed to delivering advanced telecommunications with speed, responsiveness and simplicity.



PEACEKEEPING CONTRACT

■ Sprint chartered the world's largest cargo plane in 1997 to transport satellite dishes and other communications equipment for U.S. military forces in Bosnia, Croatia and Hungary. Sprint installed a commercial communications system and is leasing it to the U.S. government.

Satisfying Customers

Sprint North Supply has developed enhanced services to address new customer requirements in a rapidly changing communication marketplace. Plans are in place for "Assemble, Wire and Test" and "Engineer, Furnish and Install" capabilities on a national basis. With existing strong supplier relationships, Sprint North Supply will continue to offer a multisupplier solution for



DELIVERING PRODUCTS

▲ Through its 11 strategically located national distribution centers, Sprint North Supply offers more than 30,000 products and represents more than 1,300 manufacturers.



HELPING HIS BUSINESS DO MORE BUSINESS

▼ Bill Rankin, the CFO for Blue Bell Creameries in Brenham, Texas, says Sprint is helping his company to expand into new regions, including its newest market — Atlanta. Blue Bell uses Sprint ATM and Sprint Paranet. Sprint is also installing a corporate intranet for Blue Bell.

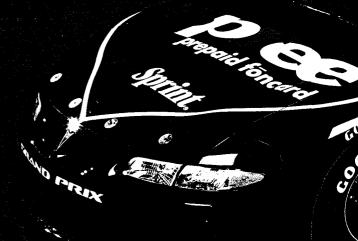


RACING FOR SPREE

▼ Sprint sponsors three generations of NASCAR's "first family" of racing. Richard Petty, right, is the winningest driver in NASCAR history. With him is son Kyle Petty, left, and Kyle's son, Adam Petty. Their cars advertise Sprint's *Spree* prepaid Foncard at racing events nationwide.

SHOWING CAPABILITIES

▲ Our local division now offers
Sprint's full product portfolio in many
of the 3,000 communities in 19 states
in which it operates. To promote
that expanded offering, Sprint has
produced a new capabilities advertising campaign. The theme: "Sprint
— Where It All Comes Together."



HAS YOUR MESSAGE-TAKING EVOLVED?



MESSAGELINE VOICE MAIL

GRAB A BROCHURE AT THE COUNTER.
BEFORE THEY'RE HISTORY.

\$ Sprint

ANSWERING EFFICIENTLY

■ Taking a light-hearted jab at the old-fashioned answering machine, this 1997 Sprint multimedia advertising campaign was instrumental in the continuing growth of *MessageLine* voice mail in both the consumer and small business segments.

TAKING IT HOME

► RadioShack is meeting Sprint's aggressive expectations for acquiring new long distance customers. This "Dime Tin" includes tangible rewards for customers who sign up for Sprint at RadioShack's 6,000 stores.





379¢3

▲ Sprint's Monday Night Madness Mobile, a 30-foot RV, travelled the country to promote *Sprint Sense* and Sprint PCS. Sprint's Fan Van was a successful draw for people who wanted to switch long distance companies. Here, the Fan Van makes one of its many Super Bowl stops in San Diego.



SPANNING THE GLOBE

■ The chairmen of Global One's three partners — from left, Michel Bon of France Telecom, Ron Sommer of Deutsche Telekom and Bill Esrey of Sprint — toured Asia to explore business opportunities.

EXTENDING A WINNER

▼ Fridays Free is an innovative, proven product that helps businesses do more business. Its success gave its users a bonus in 1997 — Fridays Free has been extended to the year 2000.



ACCESSING INFORMATION

➤ Sprint Information Services turns a Sprint Screen Phone into a convenient source for news and information. For a monthly fee, customers can access news, weather, sports, movies and more.



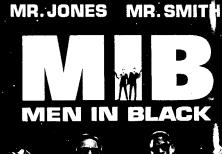
MARKETING WITH THE MOVIES

▼ Certain residential customers who switched to Sprint during a major promotion got a bonus — free tickets to see *Men in Black*, the Hollywood hit of the summer that grossed \$235 million domestically and \$128 million overseas.

ZOOMING IN ON THE BRAND

► The close-up of a head coach is a common sight when you tune into a televised National Football League game. San Francisco 49ers Head Coach Steve Mariucci wears a headset that reinforces a simple message to millions: "Sprint."







PROTECTING THE EARTH FROM THE SCUM OF THE UNIVERSE.

UC

PROVIDING TELEMARKETING SERVICES

▲ Sprint TELECENTERs provide telemarketing services for Sprint and for other companies. Sprint was recently awarded a contract to manage global customer care centers for Iridium — the world's first global wireless telephone network.

Opening Pathways

Sprint is a leading member of an international consortium that is proposing a worldwide standard for minimum Asymmetric Digital Subscriber Line (ADSL) technology over existing phone lines. ADSL provides enhanced data capabilities for work at home, Internet access, medical imaging and future video applications. Sprint has completed ADSL trials in Charlottesville, Virginia, and Orlando, Florida.

DOWNLOADING FASTER

► An Internet file that normally takes an hour to download with a 28.8 kilobit-per-second modem will take no more than 72 seconds to download with ADSL.



ROCKING AND ROLLING

▲ Sprint sponsored the highest-profile entertainment tour of the year, The Rolling Stones.

EXPANDING THE MIND

► Why is Charles Patterson, center, superintendent of the Killeen, Texas, Independent School District, smiling? Because Sprint connected all 34 of Killeen's public schools with fiberoptic cable, giving teachers and students a powerful and efficient tool for expanded learning.



The Right Partners

In 1997, its first full year of business, Global One achieved strong market acceptance and revenues of \$1.1 billion. Global One will play a key role in significantly reducing international settlements costs, which are a large expenditure for each of the three Global One partners — France Telecom, Deutsche Telekom and Sprint. Global One serves businesses,

consumers and carriers.

THE RIGHT APPROACH

▶ The Barak consortium, Sprint's first direct joint-equity international investment since it joined the Global One partnership, provides long distance services in Israel. Barak is a model for similar efforts by the global partners throughout the world.

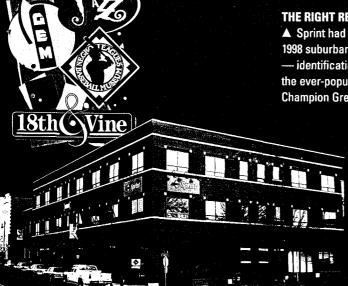
THE RIGHT STUFF

▼ Last summer, Vice President Al Gore presented Sprint Publishing & Advertising's Blue Pages with the coveted Hammer Award for improving government listings at no cost to the federal government.



THE RIGHT RELATIONSHIP

▲ Sprint had an ideal cover for its 1998 suburban Milwaukee phone book - identification with an NFL partner, the ever-popular 1997 Super Bowl Champion Green Bay Packers.



THE RIGHT DECISION

■ The opening of Sprint's 18th & Vine Call Center created 60 new jobs in Kansas City's urban core. Sprint invested in the rebirth of a district once known for African-American businesses and legendary jazz performers.

Sprint 1997 Annual Report



THE RIGHT NETWORK

■ Larry Kasanoff, CEO of Threshold Digital Research Labs, uses Sprint's DRUMs network technology to create the first virtual worldwide digital production studio, linking his studios in Santa Monica, California, and Romania. Says Kasanoff, "Going into Hollywood to look at a shot used to take half a day. Now, it's a phone call."

The Right Idea

As Sprint develops packages of local, long distance and wireless services, the local division will become the primary face of Sprint in its traditional local markets. This new role should bring considerable benefits, including increased market penetration for the whole range of Sprint-branded products available to more than 7 million customer lines served by the local division.

THE RIGHT CONNECTION

▼ No Three Musketeer conversation can occur without Three-Way Calling from Sprint. An advertising campaign for this *71 usage-sensitive service — along with *69 Return Call and *66 Repeat Dial — drove a consistent, important 1997 revenue stream.

THE RIGHT DIME

▼ By finding a 24-karat gold dime near a pay phone at the downtown Kansas City, Missouri, library, Mary Taylor won the \$25,000 grand prize in the 1997 Amazing Sprint Sense Dime Find. She rewarded herself with a trip to Cancun.



Sprint: Delivering worldclass telecommunications with speed, responsiveness and simplicity.

LOCAL TELECOMMUNICATIONS

The local telecommunications division serves 7.4 million customer lines in 19 states. Nearly 100% of local customers are served by digital switching technology, providing a platform for a portfolio of network-based voice, video and data services.

BUSINESS MARKETS Serves large, medium and small business customers with a full range of value-added services, including network-based solutions, Internet-related products, customer premises equipment and advanced data services.

CONSUMER AND SMALL BUSINESS MARKETS Serves consumers and small office/home office customers with a variety of voice and data services, including Internet access, Call Waiting and Caller ID.

CARRIER MARKETS Serves competitive local exchange carriers, long distance carriers and wireless service providers with network capacity and systems support.

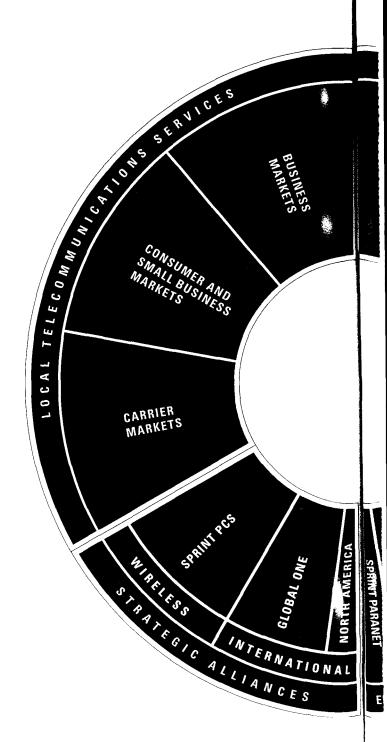
STRATEGIC ALLIANCES

Sprint is extending its market presence through a variety of strategic alliances.

SPRINT PCS Sprint's partnership with Tele-Communications, Inc., Comcast Corporation and Cox Communications, Inc. is constructing a digital wireless PCS network. Licensed coverage for Sprint-branded PCS will include nearly 260 million people across the country in the United States, Puerto Rico and the U.S. Virgin Islands.

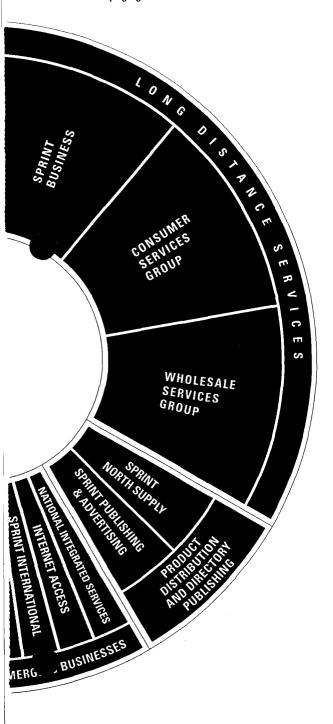
GLOBAL ONE Sprint's alliance with Deutsche Telekom and France Telecom provides global international data, voice and video business services for multinational and large business customers, as well as a growing number of small companies with international business needs. Global One also serves consumers and provides international transport services for other telecommunications carriers.

NORTH AMERICA Sprint will create a seamless platform of cross-border services through its interest in Sprint Canada and a separate strategic alliance with Telefonos de Mexico (Telmex).



SPRINT AT A GLANCE

▼ Sprint serves consumers, businesses and telecom carriers with a wide array of voice, video and data services across local, long distance, wireless, international, Internet and paging markets.



LONG DISTANCE

The long distance division serves nearly 11 million customer accounts with the only nationwide 100% digital, fiber-optic network in the United States. Sprint's leading-edge network offers customers unsurpassed bandwidth, speed and survivability.

SPRINT BUSINESS Serves large, medium and small business customers with a full range of value-added services, including Internet networking, Virtual Private Networks (VPN), messaging, fax, videoconferencing, interactive services, Foncard and prepaid cards. Advanced data services include Asynchronous Transfer Mode (ATM), Frame Relay, LAN/WAN internetworking services, transaction services, private line and switched data services.

CONSUMER SERVICES GROUP Serves residential customers with *Sprint Sense* flat-rate calling plus other plans. Other services include Foncard, toll-free service, paging and prepaid cards.

WHOLESALE SERVICES GROUP Serves facilities-based and non-facilities-based long distance resellers, including four of the original seven Regional Bell Operating Companies. Products include toll-free, calling card and VPN service.

PRODUCT DISTRIBUTION AND DIRECTORY PUBLISHING

SPRINT NORTH SUPPLY A leading nationwide provider of integrated solutions for voice, data and teleconferencing needs, cable television, and security and alarm systems. Offers more than 30,000 products and represents more than 1,300 manufacturers.

SPRINT PUBLISHING & ADVERTISING Publishes more than 320 directories with an annual circulation of more than 20 million across 20 states. Sprint Publishing & Advertising is the seventh largest Yellow Pages publisher in the United States.

EMERGING BUSINESSES

NATIONAL INTEGRATED SERVICES Develops and deploys new broadband communications product and service platforms for Sprint. National Integrated Services focuses on enabling Sprint to participate as a Competitive Local Exchange Carrier (CLEC) in local markets not currently served by Sprint.

INTERNET ACCESS Sprint plans to provide Internet access service through its alliance with EarthLink Network, Inc. Sprint and EarthLink will have an initial combined base of 600,000 customers.

SPRINT INTERNATIONAL Identifies and develops international investment opportunities for Sprint outside the scope of Global One. Coordinates its business development strategies with Global One and Deutsche Telekom and France Telecom.

SPRINT PARANET Provides integration management and support services for distributed computing technology.

Financial Section

- 27 Selected Financial Data
- 28 Review of Consolidated Results of Operations
- 32 Consolidated Statements of Income
- 33 Review of Segmental Results of Operations
- 38 Consolidated Statements of Cash Flows
- 39 Review of Cash Flows
- 40 Consolidated Balance Sheets
- 41 Review of Financial Condition, Capital Requirements and Liquidity
- 43 Consolidated Statements of Common Stock and Other Shareholders' Equity
- 44 Notes to Consolidated Financial Statements
 - 44 Summary of Significant Accounting Policies
 - 45 Investments
 - 46 Employee Benefit Plans
 - 47 Income Taxes
 - 49 Borrowings
 - 50 Redeemable Preferred Stock
 - 50 Common Stock
 - 51 Stock-based Compensation
 - 53 Commitments and Contingencies
 - 54 Financial Instruments
 - 55 Earnings per Share
 - 55 Paranet Acquisition
 - 56 Adoption of Accounting Principles for a Competitive Marketplace
 - 56 Spinoff of Cellular Division
 - 56 Additional Financial Information
 - 58 Recently Issued Accounting Pronouncements
 - 58 Quarterly Financial Data (Unaudited)
- 59 Management Report and Report of Independent Auditors

Corporate Information

- 60 Board of Directors
- 61 Principal Corporate Officers and Principal Operating Company Officers
- 62 Shareholder Information and Common Stock Data

Inside Back Cover How to Reach Us

Selected Financial Data

	1997	1996	1995	1994	1993	1992
(in millions, except per share data)						
Results of Operations)	
Net operating revenues	\$14,873.9	\$13,887.5	\$12,735.3	\$11,964.8	\$10,894.9	\$10,093.3
Operating income ⁽¹⁾	2,451.4	2,267.2	1,834.3	1,690.7	1,214.1	1,199.8
Income from continuing						
operations ^{(1),(2)}	952.5	1,190.9	946.1	899.2	517.1	550.6
Earnings per common share						
from continuing operations(1),(2)						
Basic	2.21	2.82	2.71	2.59	1.51	1.63
Diluted	2.18	2.79	2.69	2.56	1.49	1.62
Dividends per common share	1.00	1.00	1.00	1.00	1.00	1.00
Financial Position						
Total assets	\$18,184.8	\$16,826.4	\$15,074.3	\$14,425.2	\$13,781.8	\$13,308.4
Property, plant and equipment, net	11,494.1	10,464.1	9,715.8	10,258.8	9,883.1	9,895.6
Total debt (including short-term						
borrowings)	3,879.6	3,273.9	5,668.9	4,927.7	5,084.1	5,436.7
Redeemable preferred stock	11.5	11.8	32.5	37.1	38.6	40.2
Common stock and other						
shareholders' equity	9,025.2	8,519.9	4,642.6	4,524.8	3,918.3	3,971.6
Cash Flow Data						
Cash from operating activities –	ľ					
continuing operations ⁽³⁾	\$ 3,379.0	\$ 2,403.6	\$ 2,609.6	\$ 2,339.6	\$ 2,007.8	\$ 2,397.3
Capital expenditures	2,862.6	2,433.6	1,857.3	1,751.6	1,429.8	1,342.4

Sprint adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (EPS), at year-end 1997 (see Note 11 of Notes to Consolidated Financial Statements). EPS amounts have been restated to comply with this new standard. All EPS amounts discussed in this report represent "basic" EPS as defined in the new standard.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

(1) During 1997 and 1996, Sprint recorded nonrecurring charges of \$20 and \$60 million, respectively, related to litigation within the long distance division. These charges reduced income from continuing operations by \$13 million (\$0.03 per share) in 1997 and \$36 million (\$0.09 per share) in 1996.

During 1995, Sprint recorded a nonrecurring charge of \$88 million related to a restructuring within the local division, which reduced income from continuing operations by \$55 million (\$0.16 per share).

During 1993, Sprint recorded nonrecurring charges of \$293 million related to (a) transaction costs from the merger with Centel Corporation and expenses of integrating and restructuring the operations of the two companies and (b) a realignment and restructuring within the long distance division. These charges reduced income from continuing operations by \$193 million (\$0.57 per share).

(2) During 1997, Sprint recognized gains of \$45 million on sales of local exchanges and a \$26 million gain on the sale of an equity investment in an equipment provider. These gains increased income from continuing operations by \$27 million (\$0.06 per share) and \$17 million (\$0.04 per share), respectively.

During 1994, Sprint recognized a \$35 million gain on the sale of equity securities, which increased income from continuing operations by \$22 million (\$0.06 per share).

During 1993, due to the enactment of the Revenue Reconciliation Act of 1993, Sprint adjusted its deferred income tax assets and liabilities to reflect the increased tax rate. This adjustment reduced income from continuing operations by \$11 million (\$0.03 per share).

During 1992, Sprint recognized gains of \$81 million on sales of local exchanges, which increased income from continuing operations by \$44 million (\$0.13 per share).

(3) The 1996 amount was reduced by \$600 million for cash required to terminate an accounts receivable sales agreement. The 1992 amount includes \$300 million of cash proceeds from the sale of accounts receivable.

Review of Consolidated Results of Operations

General

Sprint Corporation, with its subsidiaries, (Sprint) includes certain estimates, projections and other forward-looking statements in its reports, in presentations to analysts and others, and in other publicly available material. Future performance cannot be ensured. Actual results may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include:

- ▶ the effects of vigorous competition in the markets in which Sprint operates;
- ▶ the cost of entering new markets necessary to provide seamless services;
- ▶ the risks related to Sprint's investments in Global One, Sprint Spectrum Holding Company, L.P. (Sprint PCS) and other joint ventures;
- the impact of any unusual items resulting from ongoing evaluations of Sprint's business strategies;
- ➤ requirements imposed on Sprint or latitude allowed its competitors by the Federal Communications Commission (FCC) or state regulatory commissions under the Telecommunications Act of 1996 (Telecom Act);
- unexpected results of litigation filed against Sprint;
 and
- ▶ the possibility of one or more of the markets in which Sprint competes being impacted by changes in political, economic or other factors such as monetary policy, legal and regulatory changes or other external factors over which Sprint has no control.

Core Businesses

Long Distance Division — The long distance division is the nation's third-largest long distance telephone company. It operates a nationwide, all-digital long distance communications network using state-of-the-art fiber-optic and electronic technology. The division mainly provides domestic and international voice, video and data communications services. It offers its services to the public subject to varying levels of state and federal regulation.

Local Division — The local division consists of regulated local exchange carriers (LECs) serving more than 7 million access lines in 19 states. It provides local exchange services, access by telephone customers and other carriers to Sprint's local exchange facilities, sales of telecommunications equipment and long distance services within specified geographical areas.

Product Distribution and Directory Publishing Division—The product distribution and directory publishing businesses provide wholesale distribution services of telecommunications products, and publish and market white and yellow page telephone directories.

Emerging Businesses

Emerging businesses consists of consumer Internet access services, mainly through *Sprint Internet Passport*; competitive local exchange carrier (CLEC) services; international development activities (outside the scope of Global One); personal communication services (PCS) controlled by Sprint; and integration, management and support services for computer networks (Sprint Paranet).

Strategic Alliances

Global One — Sprint is a partner in Global One, a joint venture with Deutsche Telekom AG (DT) and France Telecom (FT) to provide seamless global telecommunications services to business, residential and carrier markets worldwide. Sprint is a one-third partner in Global One's operating group serving Europe (excluding France and Germany) and is a 50% partner in Global One's operating group for the worldwide activities outside the United States and Europe.

DT and FT each own 10% of Sprint's voting equity through Sprint's Class A common stock. As Class A common shareholders, they have the right in most cases to proportionate representation on Sprint's Board of Directors. They may also purchase additional Class A common shares from Sprint to keep their ownership level at 10% each. See Note 7 of Notes to Consolidated Financial Statements for more information.

Sprint's long distance division contributed certain assets and related operations of its international business unit to Global One when the venture was formed in January 1996.

Sprint PCS — Sprint is a 40% partner in Sprint PCS, a partnership with Tele-Communications, Inc., Comcast Corporation and Cox Communications, Inc. Sprint PCS is building the nation's first single-technology, all-digital, state-of-the-art wireless network to provide PCS across the United States. PCS uses digital technology, which has sound quality superior to existing cellular technology and is less susceptible to interference and eavesdropping. PCS also offers features such as voice mail and Caller ID. Sprint PCS offers service in more than 130 metropolitan markets, which include more than 600 cities.

As part of an overall strategy to increase PCS coverage, Sprint directly acquired the rights to PCS licenses covering 139 markets across the United States. These licenses reach a total population of 70 million people. Sprint expects to affiliate these licenses with Sprint PCS. With this affiliation, licensed coverage for Sprint-branded PCS will include nearly 260 million people across the United States, Puerto Rico and the U.S. Virgin Islands.

On January 1, 1998, a "Deadlock Event" occurred due to the failure of the partnership board to approve the proposed Sprint PCS budget and business plan. Under the partnership agreement, if a partner refers the issue for resolution pursuant to specified procedures and it remains unresolved, buy/sell provisions can be triggered, which could result in Sprint either increasing or selling its partnership interest. Discussions among the partners about restructuring their interests in Sprint PCS are ongoing. However, there is no certainty the discussions will result in a change to the partnership structure.

Spinoff of Cellular Division

In March 1996, Sprint completed the tax-free spinoff of Sprint's cellular division (Cellular) to Sprint common shareholders (Spinoff). See "Review of Cash Flows — Discontinued Operation" for more information.

Regulatory Developments

The Telecom Act, which was signed into law in February 1996, was designed to promote competition in all aspects of telecommunications. It eliminated legal and regulatory barriers to entry into local telephone markets. It also required incumbent LECs, among other things, to allow local resale at wholesale rates, negotiate interconnection agreements, provide nondiscriminatory access to unbundled network elements and allow collocation of interconnection equipment by competitors. The Telecom Act also allows Bell Operating Companies (BOCs) to provide in-region long distance service once they obtain state certification of compliance with a competitive "checklist," have a facilities-based competitor, and obtain an FCC ruling that the provision of in-region long distance service is in the public interest. The Telecom Act's impact on Sprint remains unclear because the rules for competition are still being decided by regulators and the courts.

Sprint has filed for CLEC status in most states in anticipation of the local markets opening to competition; however, Sprint currently is not actively marketing CLEC services. See "Review of

phone service in Tianjin, China, a city of 9 million people. The Tianjin network is the first fixed wireline network of its exclusive operator, China Unicom, China's second telephone carrier. The network initially will serve 50,000 lines, then expand to 300,000 in the second phase.

Sprint has begun an alternative tele-

Segmental Results of Operations — Emerging Businesses" for more information. In those areas where Sprint is the incumbent LEC, local competition is expected to eventually result in some loss of market share. Because Sprint's LEC operations are geographically dispersed and largely in rural markets, local competition is expected to occur more gradually.

In accordance with the Telecom Act, the FCC adopted detailed rules in 1996 to govern interconnection to incumbent local networks by new market entrants. Some LECs and state public utility commissions appealed these rules to the U.S. Court of Appeals, which prevented most of the pricing rules from taking effect, pending a full review by the court.

In 1997, the court struck down the FCC's pricing rules. It ruled that the Telecom Act left jurisdiction over pricing matters to the states. The court also struck down certain other FCC rules on jurisdictional or substantive grounds. The U.S. Supreme Court has agreed to review the appeals court decision.

In 1997, the FCC issued important decisions on the structure and level of access charges and universal service. These decisions will impact the industry in several ways, including the following:

- ▶ An additional subsidy was created to support telecommunications services for schools, libraries and rural health care providers. All carriers providing telecommunications services will be required to fund this program, which is capped at \$2.7 billion per year. However, LECs can pass their portion of these costs on to long distance carriers.
- ▶ Per-minute interstate access rates charged by LECs will decline over time to become cost-based, beginning in July 1997.
- ➤ Certain monthly flat-rate charges paid by some local telephone customers will increase beginning in 1998.
- ► Certain per-minute access charges paid by long distance companies were converted to flat monthly charges based on pre-subscribed lines.
- ► A basis has been established for replacing implicit access subsidies with an explicit interstate universal service fund beginning in 1999.

Review of Consolidated Results of Operations continued

A number of LECs, long distance companies and others have appealed some or all of the FCC's orders. The effective date of the orders has not been delayed, but the appeals are expected to take a year or more to conclude. The impact of these FCC decisions on Sprint is difficult to determine, but is not expected to be material.

Some BOCs have also challenged the Telecom Act restrictions on their entry into long distance markets as unconstitutional. A federal district court in Wichita Falls, Texas, ruled the restrictions unlawful because they constituted a legislative act that imposed punishment without a judicial proceeding. The United States government, along with Sprint and others, filed appeals of this decision. The federal district court delayed implementing its decision pending resolution of the appeals.

In 1997, several BOCs claimed they met the competitive checklist and sought FCC approval to offer in-region long distance service. These applications were denied by the FCC. Even if BOCs were to get authority to offer in-region long distance services, it is likely that any loss of revenues at the retail level would be offset in whole or in part because Sprint is the underlying network provider to some regional BOCs.

Results of Operations

Sprint adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share" (EPS), at year-end 1997 (see Note 11 of Notes to Consolidated Financial Statements). EPS amounts have been restated to comply with this new standard. All EPS amounts in the following discussions represent "basic" EPS as defined in SFAS 128.

Consolidated

Total net operating revenues for 1997 were \$14.9 billion, a 7% increase from \$13.9 billion in 1996. Total net operating revenues for 1995 were \$12.7 billion.

Income from continuing operations was \$953 million (\$2.21 per share) in 1997 compared with \$1.2 billion (\$2.82 per share) in 1996 and \$946 million (\$2.71 per share) in 1995.

Core Businesses

Sprint's core businesses generated record levels of net operating revenues and improved operating results in 1997. Core results exclude the impact from joint ventures and emerging businesses. Long distance calling volumes increased 14% in 1997, and access lines served by the local division grew 5.6%, excluding sales of local

exchanges during 1997. Excluding nonrecurring items, income from core operations was \$1.6 billion (\$3.73 per share) in 1997 versus \$1.4 billion (\$3.42 per share) in 1996 and \$1.0 billion (\$2.97 per share) in 1995.

Nonrecurring Items

Consolidated and core income from continuing operations for 1997 include gains on sales of local exchanges (\$0.06 per share) and a gain on the sale of an equity investment in an equipment provider (\$0.04 per share). In addition, 1997 and 1996 include litigation charges within the long distance division (\$0.03 per share and \$0.09 per share, respectively). The 1995 amounts include a charge for restructuring the local division (\$0.16 per share).

Nonoperating Items

Interest Expense

Interest costs on borrowings consist of the following:

_		_
1997	1996	1995
\$ 159.9	\$ 161.2	\$ 231.0
_	21.5	124.0
93.0	104.0	57.0
\$ 252.9	\$ 286.7	\$ 412.0
\$3,251.3	\$3,604.9	\$5,505.2
7.8%	8.0%	7.5%
	\$ 159.9 93.0 \$ 252.9 \$3,251.3	\$ 159.9 \$ 161.2 - 21.5 93.0 104.0 \$ 252.9 \$ 286.7 \$3,251.3 \$3,604.9

(1) Interest expense related to Cellular is included in "Discontinued operation, net" on the Consolidated Statements of Income.

Average debt outstanding decreased \$1.9 billion in 1996, generally because of repayments funded by a portion of the cash received from DT and FT for their equity investments in Sprint and from Cellular's repayment of intercompany debt in connection with the Spinoff. Sprint's effective interest rate increased to 8.0% in 1996 from 7.5% in 1995, mainly because of the decline in short-term borrowings as a percentage of total borrowings.

Sprint capitalizes interest costs on its investment in the directly acquired PCS licenses and the related network buildout. Through June 1997, Sprint also capitalized interest costs on borrowings related to its investment in Sprint PCS. Sprint stopped capitalizing these costs in July 1997 because Sprint PCS no longer qualified as a development-stage company.

International Business

Sprint's partnership with France Telecom and Deutsche Telekom, Global One, has emerged as the leading international telecommunications venture. Through early 1998, Global One served more than 30,000 business customers worldwide. The joint venture has more than 3,900 employees in more than 65 countries.

Global One

Losses and related venture costs from Global One totaled \$162 million in 1997, \$82 million in 1996 and \$23 million in 1995. The increased losses in 1997 were due to higher operating costs within Global One's existing global markets due to the slower-than-expected integration of the parent companies' networks and start-up related costs. Global One has begun a thorough review of operations, including network deployment, and management and support systems, in an effort to improve efficiencies and reduce operating costs.

Sprint PCS

Sprint PCS' revenues totaled \$249 million in 1997 and \$4 million in 1996. Sprint's share of operating losses from Sprint PCS and its affiliates was \$660 million in 1997, \$192 million in 1996 and \$31 million in 1995. The 1997 losses reflect marketing and promotional costs to support a growing customer base. In early 1998, Sprint PCS' customer base exceeded 1 million customers. The venture plans to continue to aggressively obtain new customers, which will likely result in higher losses in 1998 compared with 1997.

Average monthly revenue per customer in 1997 approximated \$64, which is higher than wireless industry averages. This higher average is being driven by marketing plans that both target and encourage higher usage. Sprint PCS customer churn rates and customer marketing costs have been as expected at this stage of development. As the PCS markets mature and Sprint PCS gains additional scale, both of these measures are expected to trend toward cellular industry levels.

Other Income (Expense), Net

Other income (expense) consists of the following:

(in millions)		1997	_	1996	1995
Dividend and interest					
income	\$	75.4	\$	99.7	\$ 12.6
Net gains on sales			l		l
of assets		71.5		15.9	
Loss on sales of accounts	ļ				į
receivable		_		(4.2)	(38.6)
Other, net		(6.4)	_	3.9	(12.9)
Total other income					
(expense), net	\$	140.5	\$	115.3	\$ (38.9)

Dividend and interest income for 1997 and 1996 reflects income earned on the cash received from DT and FT for their equity investment in Sprint, as well as Cellular's repayment of intercom-

pany debt in connection with the Spinoff. Sprint has since invested these funds in strategic initiatives and has decreased certain borrowings, reducing the balance held in temporary investments in 1997. In 1997, Sprint recognized pretax gains of \$45 million on sales of local exchanges. Also in 1997, Sprint sold its equity interest in an equipment provider, resulting in a \$26 million pretax gain.

Income Taxes

Sprint's effective tax rates were 39.8% in 1997, 37.7% in 1996 and 36.1% in 1995. See Note 4 of Notes to Consolidated Financial Statements for information about the differences that cause the effective income tax rate to vary from the statutory federal rate.

Discontinued Operation, Net

Sprint recognized an after-tax loss of \$3 million (\$0.01 per share) in 1996 and after-tax income of \$15 million (\$0.04 per share) in 1995 related to its investment in Cellular. Cellular was spun off to Sprint common shareholders in March 1996 (see Note 14 of Notes to Consolidated Financial Statements).

Extraordinary Items, Net

During 1996, Sprint redeemed, prior to maturity, \$190 million of debt with interest rates ranging from 6.0% to 9.5%. This resulted in a \$5 million (\$0.01 per share) after-tax loss.

At year-end 1995, Sprint adopted accounting principles for a competitive marketplace and discontinued applying SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," to its local division (see Note 13 of Notes to Consolidated Financial Statements). This resulted in an after-tax, noncash extraordinary charge of \$565 million (\$1.62 per share) in 1995.

`Consolidated Statements of Income

Years ended December 31,	1997	1996	1995
(in millions, except per share data)			
Net Operating Revenues	\$14,873.9	\$13,887.5	\$12,735.3
Operating Expenses			
Costs of services and products	7,451.0	6,912.9	6,504.9
Selling, general and administrative	3,245.2	3,116.4	2,842.1
Depreciation and amortization	1,726.3	1,591.0	1,466.4
Restructuring costs			87.6
Total operating expenses	12,422.5	11,620.3	10,901.0
Operating Income	2,451.4	2,267.2	1,834.3
Interest expense	(187.2)	(196.7)	(260.7)
Equity in loss of Global One	(162.1)	(82.1)	(22.9)
Equity in loss of Sprint PCS and affiliates	(659.6)	(191.8)	(31.4)
Other income (expense), net	140.5	115.3	(38.9)
Income from continuing operations before income taxes	1,583.0	1,911.9	1,480.4
Income taxes	(630.5)	(721.0)	(534.3)
Income from Continuing Operations	952.5	1,190.9	946.1
Discontinued operation, net	332.3	(2.6)	14.5
Extraordinary items, net		(4.5)	(565.3)
		(1.5)	(303.3)
Net Income	952.5	1,183.8	395.3
Preferred stock dividends	(1.0)	(1.3)	(2.6)
Forming and in 11.	¢ 054 5	¢ 1 102 5	¢ 202.7
Earnings applicable to common stock	\$ 951.5	\$ 1,182.5	\$ 392.7
Basic Earnings per Common Share			
Continuing operations	\$ 2.21	\$ 2.82	\$ 2.71
Discontinued operation	-	(0.01)	0.04
Extraordinary items		(0.01)	(1.62)
Total	\$ 2.21	\$ 2.80	\$ 1.13
Basic weighted average common shares	430.2	421.7	348.7
Diluted Earnings per Common Share			
Continuing operations	\$ 2.18	\$ 2.79	\$ 2.69
Discontinued operation	ψ 2.10 	(0.01)	0.04
Extraordinary items		(0.01)	(1.61)
Total	\$ 2.18	\$ 2.77	\$ 1.12
Diluted weighted average common shares	436.5	427.0	351.3
Dividends per Common Share	\$ 1.00	\$ 1.00	\$ 1.00

See accompanying Notes to Consolidated Financial Statements.

Review of Segmental Results of Operations

Long Distance Division

(in millions)	1997	1996	1995
Net operating revenues	\$8,954.8	\$8,302.1	\$7,277.4
Operating expenses			
Interconnection	3,941.1	3,722.7	3,102.7
Operations	1,236.6	1,051.8	1,046.6
Selling, general and administrative Depreciation and	1,962.9	1,970.3	1,839.7
amortization	716.7	633.3	581.6
Total operating expenses	7,857.3	7,378.1	6,570.6
Operating income	\$1,097.5	\$ 924.0	\$ 706.8
Operating margin	12.3%	11.1%	9.7%
Capital expenditures	\$1,218.1	\$1,133.7	\$ 861.7
Identifiable assets	\$6,464.6	\$5,997.7	\$4,799.0

During 1997 and 1996, Sprint recorded nonrecurring litigation charges of \$20 and \$60 million, respectively (see Note 9 of Notes to Consolidated Financial Statements). In January 1996, the division contributed certain international assets and related operations to Global One. For comparative purposes, the following discussion of long distance division operating results excludes the nonrecurring charges and assumes the contribution occurred at the beginning of 1995. Operating margins would have been 12.5% in 1997, 12.0% in 1996 and 10.9% in 1995.

Net Operating Revenues

Net operating revenues increased 8% in 1997 and 17% in 1996. All major market segments — residential, business and wholesale — contributed to these increases. In general, the increases reflect strong calling volume growth of 14% in 1997 and 20% in 1996 and continued growth in the data services market. Revenue growth in 1997 was affected by a more competitive pricing environment, a change in the mix of products sold

It all happens here ...

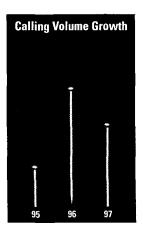
Long Distance Customors

Sprint's long distance division signed several significant contracts with business customers in 1997. Included were American Multi-Cinema, Baker & Taylor, Inc., Ernst & Young International, Ltd., International Masters Publishers, Kodak, the Securities Industry Association, and Threshold Entertainment.

and an increase in the bad debt provision. Management continues to monitor Sprint's credit extension policies to ensure they remain effective. In addition, 1996 includes revenues from carrying the

Internal Revenue Service 800 help line traffic, a service Sprint no longer provides, while 1997 reflects lower yields on other government contracts.

Residential Market — Residential market revenues reflect the continuing success of Sprint Sense, a flat-rate calling plan, as well as growth in 1997 from international calls, prepaid phone cards and casual callers accessing the Sprint network.



Business Market — Business market revenues reflect increased calling volumes for toll-free and direct-distance-dialing toll (WATS) calls made within the United States. Growth in the small and medium business market was due to the continuing success of the division's small business product, Fridays Free. Data services, which includes sales of capacity on Sprint's network to Internet

service providers, showed strong growth because of continued demand and expanded service offerings.

Wholesale Market — The wholesale market showed strong growth in both domestic and international markets. Domestic increases mainly reflect increased WATS calling volumes, partly offset by a decline in rates due to increased competition.

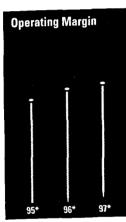
Review of Segmental Results of Operations continued

Interconnection Costs

Interconnection costs consist of amounts paid to LECs, other domestic service providers and foreign telephone companies to complete calls made by the division's domestic customers. These costs increased 6% in 1997 and 20% in 1996, reflecting strong growth in calling volumes, partly offset by lower unit costs for both domestic and international access. The lower domestic rates are generally due to FCC-mandated access rate reductions that took effect in July 1997 — see "Regulatory Developments" for more information. Interconnection costs were 44.0% of net operating revenues in 1997, 45.0% in 1996 and 43.9% in 1995.

Operations Expense

Operations expense mainly consists of costs related to operating and maintaining the long distance network and costs of equipment sales. It also includes costs of



*Excludes nonrecurring charges and assumes the contribution to Global One occurred at the beginning of 1995.

providing operator, public pay phone and video teleconferencing services, as well as telecommunications services for the hearing-impaired. Operations expense increased 20% in 1997 and 17% in 1996. As a percentage of net operating revenues, operations expense was 13.8% in 1997, 12.5% in 1996 and 12.4% in 1995. The 1997 increases were mainly due to increased costs related to FCC-mandated payments to public pay phone providers, network equipment leasing

costs, costs related to data services growth and equipment sales. The 1996 increase in expense reflects overall revenue growth.

Selling, General and Administrative Expense

Selling, general and administrative (SG&A) expense increased 2% in 1997 and 8% in 1996. These increases reflect the overall growth of the division's operating activities as well as increases in marketing and promotions to support products and services. The 1997 increase also reflects increased information technology costs to support network quality, and customer

acquisition and customer management. SG&A expense was 21.7% of net operating revenues in 1997, 22.9% in 1996 and 24.8% in 1995. These improvements reflect continued cost control and business process improvement efforts.

Depreciation and Amortization Expense

Depreciation and amortization expense increased 13% in 1997 and 12% in 1996, generally because of an increased asset base. Capital expenditures were incurred mainly to enhance network reliability, meet increased demand for data-related services and upgrade capabilities for providing new products and services. Depreciation and amortization expense was 8.0% of net operating revenues in 1997, 7.6% in 1996 and 8.0% in 1995.

Local Division

(in millions)	1997	1996	1995
Net operating revenues	\$5,290.2	\$5,126.8	\$4,690.0
Operating expenses Costs of services			
and products	1,888.1	1,842.5	1,769.5
Selling, general and administrative Depreciation and	1,074.0	1,038.2	956.5
amortization	934.1	909.1	835.6
Restructuring costs			87.6
Total operating expenses	3,896.2	3,789.8	3,649.2
Operating income	\$1,394.0	\$1,337.0	\$1,040.8
Operating margin	26.4%	26.1%	22.2%
Capital expenditures	\$1,258.4	\$1,142.6	\$ 950.8
Identifiable assets	\$7,609.7	\$7,425.4	\$6,962.0

Beginning in July 1997, Sprint changed its transfer pricing for certain transactions between affiliates to more accurately reflect market pricing. The main effect of the pricing change was to reduce "Other Revenues." For comparative purposes, the following discussion of local division operating results assumes these pricing changes occurred at the beginning of 1995. Operating margins would have been 25.6% in 1997, 24.5% in 1996 and 22.3% in 1995 (excluding the restructuring charge).

In 1997, Sprint and Telmex, Mexico's largest telecommunications company, formed a joint venture to market long distance service to the growing U.S. Hispanic market. Also in 1997, Sprint Canada — a company

in which Sprint holds a 25 percent equity stake — acquired its milestone 1 millionth customer.

19% in 1997 and 13% in 1996. During 1996 and 1995, the division resold interexchange long distance services in some of its service areas. This

reseller service was phased out through early 1997,

accounting for a large portion of the 1997 decline. Some of those customers, however, became customers of Sprint's long distance division, which has reduced the overall impact on Sprint. The decreases in toll service revenues also reflect extended local area calling plans and increased competition in the intrastate long distance market since interexchange long distance carriers now provide intraLATA long distance services in many states. The declines in toll service revenues were partly offset by related increases in the division's local and network access revenues.

Other Revenues — Other revenues are mainly derived from telecommunications equipment sales, directory sales and listing services, and billing and collection services. These revenues increased 10% in 1997 and 24% in 1996, mainly because of increased equipment sales. A major factor in the 1996 growth was the introduction of enhanced telephone instruments, such as Caller ID units.

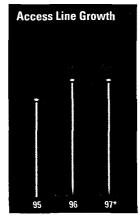
Costs of Services and Products

Costs of services and products consists of costs related to operating and maintaining the local network and costs of equipment sales. These expenses increased 3% in 1997 and 4% in 1996 because of customer access line growth and increased equipment sales. Both years also reflect savings from the division's restructuring of the network function. Costs of services and products were 36.0% of net operating revenues in 1997, 36.7% in 1996 and 38.5% in 1995. The improvement in 1996 compared with 1995 reflects the capitalization of switch software costs beginning in 1996, as discussed in "Depreciation and Amortization Expense."



Net operating revenues increased 4% in 1997 and 9% in 1996 mainly because of customer access line growth. Excluding sales of local exchanges in 1997, access line growth was 5.6% in both 1997 and 1996. Net operating revenues were \$5,231.7 million in 1997, \$5,013.3 million in 1996 and \$4,581.2 million in 1995.

Local Service Revenues — Local service revenues, derived from local exchange services, increased 10% in 1997 and 11% in 1996. These increases reflect strong economic growth in the division's service areas and increases in second-line service for existing business and residential customers to meet their lifestyle and data access needs. Local service revenues also increased because of extended area calling plans and increased demand for advanced intelligent network services, such as Caller ID and Call Waiting.



*Excludes sales of exchanges

Network Access Revenues — Network access revenues, derived from interexchange long distance carriers' use of the local network to complete calls, increased 2% in 1997 and 10% in 1996. The increases were largely due to increased calling volumes of 6% in 1997 and 10% in 1996. The 1997 revenue growth was partly offset by FCC-mandated access rate reductions effective in July

1997 — see "Regulatory Developments" for more information. In addition, the FCC's 1995 interim interstate price cap plan increased network access revenues for 1996 and had a nominal effect on 1995.

Toll Service Revenues — Toll service revenues are mainly derived from providing long distance services within specified geographical areas, or local access transport areas (LATAs). These revenues decreased

Review of Segmental Results of Operations continued

Selling, General and Administrative Expense

SG&A expense increased 3% in 1997 and 9% in 1996. These increases were mainly due to increased customer service costs related to access line growth and marketing costs to promote new products and services. These increases were partly offset by savings from the division's restructuring of the finance function and general cost control measures. SG&A expense was 20.6% of net operating revenues in 1997, 20.7% in 1996 and 21.0% in 1995.

Depreciation and Amortization Expense

Depreciation and amortization expense increased 3% in 1997 and 9% in 1996, mainly because of plant additions. The 1996 increase also reflects the initial year of amortizing capitalized switch software costs. At year-end 1995, Sprint adopted accounting principles for a competitive marketplace and discontinued applying SFAS 71 to its local division (see Note 13 of Notes to Consolidated Financial Statements). As a result, certain accumulated depreciation balances were increased; plant asset lives were shortened to reflect their economic lives; and switch software costs, which were previously expensed as incurred, are now capitalized and amortized over their estimated economic lives. Depreciation and amortization expense was 17.8% of net operating revenues in 1997, 18.1% in 1996 and 18.2% in 1995.

Restructuring Costs

In 1995, Sprint recorded an \$88 million charge to restructure the division (see Note 15 of Notes to Consolidated Financial Statements).

Product Distribution and Directory Publishing Division

(in millions)	1997	1996	1995
Net operating revenues	\$1,454.3	\$1,225.4	\$1,147.6
Operating expenses Costs of services and products	1,172.9	1,025.7	965.8
Selling, general and administrative Depreciation and amortization	93.3 8.2	90.9 7.2	87.7 7.4
Total operating expenses	1,274.4	1,123.8	1,060.9
Operating income	\$ 179.9	\$ 101.6	\$ 86.7
Operating margin	12.4%	8.3%	7.6%
Capital expenditures	\$ 10.5	\$ 9.4	\$ 7.8
Identifiable assets	\$ 519.0	\$ 446.1	\$ 395.4

Beginning in July 1997, Sprint changed its transfer pricing for certain transactions between affiliates to more accurately reflect market pricing. Had these pricing changes occurred at the beginning of 1995, net operating revenues would have increased 19% to \$1,445.1 million in 1997 from \$1,214.3 million in 1996. Revenues would have been \$1,138.9 million in 1995. Sales to non-affiliates in 1997 compared with 1996 remained relatively flat because of increased competition. Costs of services and products would have increased 22% to \$1,115.9 million in 1997 from \$918.2 million in 1996. Costs of services and products would have been \$863.4 million in 1995. The growth in revenues and costs of services and products reflects increased sales of telecommunications equipment and distribution services to the local division.

Operating margins would have been 15.8% in 1997, 16.3% in 1996 and 15.8% in 1995.

Emerging Businesses

(in millions)	1997	1996
Net operating revenues	\$ 57.4	\$ 0.5
Operating loss	\$ (183.0)	\$ (63.8)
Capital expenditures	\$ 233.3	\$ 49.9
Identifiable assets	\$1,290.3	\$ 138.3

Revenues in 1997 increased mainly because of Sprint Paranet and Sprint Internet access services. Operating losses for both years largely reflect activities to develop or enter newly competitive domestic and international markets, such as Internet access and competitive local services.

During 1996, Sprint began offering Internet services to consumers through *Sprint Internet Passport*. During 1997, Sprint launched *Sprint Internet Private Passport*, which provides customized, private Internet access services to businesses.

In February 1998, Sprint announced it was forming a broad business relationship with EarthLink Network Inc. (EarthLink), an Internet service provider. As part of this relationship, EarthLink will obtain Sprint's Internet Passport customers and will take over the day-to-day operations of those services. This will create a combined base of 600,000 Internet access customers, and enable Sprint to build its brand equity and market share. This relationship requires regulatory approval and is expected to close in the 1998 second quarter.

During the 1997 third quarter, Sprint stopped actively marketing its CLEC services until the rules for local competition become clearer, economics improve,

It all happens here ...

On-line Businesses

The Yankee Group forecasts consumer purchases on the Internet will hit the \$10 billion mark by the year 2000. Leading Internet service providers like Sprint are delivering security solutions that prevent unwanted access into the customer's network by those with more than just shopping on their minds.

and more effective working arrangements and electronic interfaces with incumbent LECs can be developed. While Sprint's measured course on entering the CLEC market has enabled it to avoid signi-

ficant losses, Sprint continues to devote significant resources toward developing a distinct approach.

As part of an overall strategy to achieve nationwide PCS coverage, Sprint directly acquired PCS licenses for \$544 million. The licenses cover 139 markets across the United States, reaching a total population of 70 million. Sprint plans to affiliate these licenses with the licenses previously acquired by Sprint PCS. With this affiliation, licensed coverage for Sprint-branded PCS will include nearly 260 million people across the United States, Puerto Rico and the U.S. Virgin Islands. Sprint began construction in some markets in 1997. While zoning issues will dictate the rate of buildout progress, Sprint hopes to achieve coverage in areas that could reach 25 to 30 million people by the end of 1998. Excluding the PCS license costs, Sprint expects capital expenditures to total \$1.8 billion in 1998 for network buildout.

In September 1997, Sprint acquired Houston-based Paranet, Inc., which will allow Sprint to capitalize on the accelerating demand for network management services. Sprint Paranet's design, implementation and consultation expertise should also enable Sprint to maintain and add to its traditional long distance revenues. See Note 12 of Notes to Consolidated Financial Statements for more information about the Paranet acquisition.

Consolidated Statements of Cash Flows

Years ended December 31,	1997	1996	1995
(in millions)			
Operating Activities			
Net income	\$ 952.5	\$ 1,183.8	\$ 395.3
Adjustments to reconcile net income to net cash		, , -	, 0,5,5
provided by operating activities:			
Equity in net losses of affiliates	843.7	273.7	39.1
Extraordinary items, net	1 - 1	4.9	565.3
Depreciation and amortization	1,726.3	1,591.0	1,466.4
Deferred income taxes and investment tax credits	165.7	(10.3)	5.8
Net (gains) losses on sales of assets	(93.2)	7.5	4.2
Changes in assets and liabilities:			
Accounts receivable, net	(127.0)	(982.1)	(135.4)
Inventories and other current assets	(94.4)	15.7	(38.6)
Accounts payable and other current liabilities	18.0	362.0	178.1
Noncurrent assets and liabilities, net	(18.4)	(25.5)	123.0
Other, net	5.8	(17.1)	6.4
		• •	
Net cash provided by continuing operations	3,379.0	2,403.6	2,609.6
Net cash provided (used) by cellular division		(0.1)	162.5
Net cash provided by operating activities	3,379.0	2,403.5	2,772.1
and the second			
Investing Activities			
Capital expenditures	(2,862.6)	(2,433.6)	(1,857.3)
Purchase of PCS licenses	(460.1)	(84.0)	_
Investments in and loans to affiliates, net	(1,091.8)	(642.4)	(991.9)
Paranet acquisition	(375.0)		
Proceeds from sales of assets	292.3	2.1	6.7
Other, net	(2.3)	42.4	(17.1)
Net cash used by continuing operations	(4,499.5)	(3,115.5)	(2,859.6)
Repayment by cellular division of intercompany advances	(1,100.0)	1,400.0	(2,0)).0)
Net cash used by cellular division	<u></u>	(140.7)	(324.6)
	(4,499.5)	(1,856.2)	
Net cash used by investing activities	(4,455.5)	(1,836.2)	(3,184.2)
Financing Activities			
Payments on long-term debt	(135.0)	(433.1)	(630.0)
Proceeds from long-term debt	866.5	9.4	260.7
Net change in short-term borrowings	(200.0)	(1,986.8)	1,109.5
Proceeds from Class A common stock issued	(2555)	3,661.3	-,10,.,
Dividends paid	(430.0)	(419.6)	(351.5)
Treasury stock purchased	(144.5)	(407.2)	(5)1.5)
Other, net	114.6	55.1	33.9
Net cash provided by financing activities	71.6	479.1	422.6
Increase (Decrease) in Cash and Equivalents	(1,048.9)	1,026.4	10.5
Cash and Equivalents at Beginning of Year	1,150.6	124.2	113.7
Cash and Equivalents at End of Year	\$ 101.7	\$ 1,150.6	\$ 124.2

See accompanying Notes to Consolidated Financial Statements.

Review of Cash Flows

Operating Activities – Continuing Operations

Cash flows from operating activities, which are Sprint's main source of liquidity, were \$3.4 billion in 1997, \$2.4 billion in 1996 and \$2.6 billion in 1995. The growth in 1997 operating cash flows reflects improved operating results in Sprint's core businesses, partly offset by increased losses from its emerging businesses. During 1996, Sprint terminated an accounts receivable sales agreement, which reduced cash flows by \$600 million. Excluding this termination, 1996 cash flows increased \$394 million, mainly because of improved operating results in all divisions.

Investing Activities ~ Continuing Operations

Sprint's investing activities used cash of \$4.5 billion in 1997, \$3.1 billion in 1996 and \$2.9 billion in 1995. Capital expenditures, which are Sprint's largest investing activity, were \$2.9 billion in 1997, \$2.4 billion in 1996 and \$1.9 billion in 1995.

Long distance capital expenditures were incurred mainly to enhance network reliability, meet increased demand for data-related services and upgrade capabilities for providing new products and services. The local division incurred capital expenditures to accommodate access line growth and expand capabilities for providing enhanced services.

In 1997, Sprint paid the remaining \$460 million for its directly owned PCS licenses, bringing total payments to \$544 million. Also in 1997, Sprint purchased the net assets of Paranet, Inc. for \$375 million (see Note 12 of Notes to Consolidated Financial Statements).

"Investments in and loans to affiliates, net" consists of the following:

(in millions)	1997	1996	1995
Sprint PCS(1)			
Capital contributions	\$ 405.9	\$ 297.6	\$ 910.9
Loans and		ľ	
advances, net	254.1	67.1	_
Capitalized interest	46.3	96.3	43.2
Investments in debt			
securities	_	100.0	
	706.3	561.0	954.1
Global One			
Capital contribution		39.5	_
Advances, net	199.7		
	199.7	39.5	
Other, net	185.8	41.9	37.8
Total	\$1,091.8	\$ 642.4	\$ 991.9

⁽¹⁾Includes Sprint PCS and its affiliates.

It all happens here ... People on the Wove

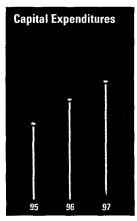
Sprint is extending the reach of its brand via new distribution channels. The company signed an agreement which enables exclusive access to the United States Postal Service New Movers Direct Mail Program. This opens a new channel for Sprint to reach a potential 19 million households.

The capital contributions, and loans and advances, to Sprint PCS in 1997 and 1996 were used to fund its capital and operating requirements. The 1995 contributions were mainly used to fund

payments for PCS licenses. In 1997, Sprint PCS borrowed \$300 million from Sprint under a vendor financing facility. In July 1997, Sprint began amortizing the capitalized interest costs over the lives of the related assets. In 1996, Sprint purchased \$183 million (face value) of Sprint PCS Senior Discount notes for \$100 million.

Financing Activities

Sprint's financing activities provided cash of \$72 million in 1997, \$479 million in 1996 and \$423 million in



Continuing operations

1995. In 1997, Sprint borrowed \$867 million, mainly to fund investments in and loans to affiliates. In 1996, DT and FT acquired Class A common shares for a combined total of \$3.7 billion. Sprint mainly used these proceeds, and the cash from Cellular repaying intercompany debt, to reduce outstanding debt. In 1995, Sprint increased its short-term borrowings by \$1.1 billion to

fund commitments related to Sprint PCS and repay long-term debt.

Sprint paid common and preferred dividends totaling \$430 million in 1997, \$420 million in 1996 and \$352 million in 1995. Sprint's indicated annual dividend rate on common stock is currently \$1.00 per share.

Sprint purchased 3 and 10 million treasury shares in 1997 and 1996, respectively. Sprint may repurchase common shares on the open market through 1998 to meet share issuance requirements for employee benefit plans and for the conversion of preferred stock.

Discontinued Operation

In connection with the March 1996 Spinoff, Cellular repaid \$1.4 billion of intercompany debt owed to Sprint. Prior to the Spinoff, Cellular's investing activities required net cash of \$141 and \$325 million in 1996 and 1995, respectively, mainly to fund capital expenditures and acquire cellular properties.

Consolidated Balance Sheets

December 31,	1997	1996
(in millions, except per share data)		
Assets		
Current assets		
Cash and equivalents	\$ 101.7	\$ 1,150.6
Accounts receivable, net of allowance for doubtful accounts	0.405.0	22/26
of \$146.7 and \$117.4 Inventories	2,495.6 352.0	2,343.6 305.3
Notes and other receivables	464.6	101.9
Other	358.7	331.5
Total current assets	3,772.6	4,232.9
Investments in equity securities	303.0	254.5
Property, plant and equipment		
Long distance communications services	8,245.5	7,467.8
Local communications services	14,011.5	13,368.7
Other	953.9	574.3
Total property, plant and equipment	23,210.9	21,410.8
Less accumulated depreciation	11,716.8	10,946.7
Net property, plant and equipment	11,494.1	10,464.1
Investments in and advances to affiliates	1,427.5	1,527.1
Other assets	1,187.6	347.8
Total	\$18,184.8	\$16,826.4
Current liabilities Current maturities of long-term debt Short-term borrowings Accounts payable Accrued interconnection costs Accrued taxes Advance billings Other	\$ 131.0 	\$ 99.1 200.0 1,026.7 709.0 189.2 199.7 770.6
Total current liabilities	3,076.8	3,194.3
	3,748.6	2,974.8
Long-term debt	3,/40.0	2,9/4.0
Deferred credits and other liabilities Deferred income taxes and investment tax credits	1,016.5	846.9
Postretirement and other benefit obligations	947.4	919.7
Other	358.8	359.0
Total deferred credits and other liabilities	2,322.7	2,125.6
Redeemable preferred stock	11.5	11.8
Common stock and other shareholders' equity		
Common stock, par value \$2.50 per share, 1,000.0 shares authorized, 350.3 shares issued, and 343.8 and 343.9 shares outstanding	875.7	875.7
Class A common stock, par value \$2.50 per share, 500.0 shares authorized, 86.2 shares issued and outstanding	215.6	215.6
Capital in excess of par or stated value	4,457.7	4,425.9
Retained earnings	3,693.1	3,222.4
Treasury stock, at cost, 6.5 and 6.4 shares	(292.9)	(262.2
Other	76.0	42.5
Total common stock and other shareholders' equity	9,025.2	8,519.9
Total	\$18,184.8	\$16,826.4

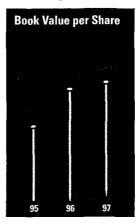
See accompanying Notes to Consolidated Financial Statements.

Review of Financial Condition, Capital Requirements and Liquidity

Financial Condition

Sprint's consolidated assets totaled \$18.2 billion at yearend 1997 versus \$16.8 billion at year-end 1996. Net property, plant and equipment increased \$1.0 billion in 1997, mainly because of increased capital expenditures to support the core long distance and local networks.

At year-end 1997, Sprint's total capitalization was \$12.9 billion. Total capitalization consists of short-term borrowings, long-term debt (including current maturi-



ties), redeemable preferred stock, and common stock and other shareholders' equity. Short-term borrowings and long-term debt (including current maturities) increased to 30.0% of total capitalization at year-end 1997 from 27.7% at year-end 1996. See "Review of Cash Flows" for additional discussions of changes in Sprint's Consolidated Balance Sheets.

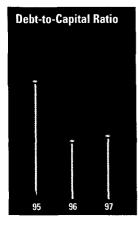
Liquidity and Capital Resources

Capital Requirements

Sprint's 1998 investing activities, consisting of capital expenditures and investments in affiliates, are expected

to require cash of \$5.4 to \$6.1 billion. Dividend payments are expected to total \$430 million in 1998. These requirements will be funded with cash from operating activities and external sources. External borrowings are expected to total \$2.0 to \$2.5 billion in 1998.

Sprint expects to spend \$5.0 to \$5.5 billion on capital expenditures in 1998. Of this total, the long distance



and local divisions will

require an estimated \$2.7 to \$3.0 billion. The remainder will mainly be used to build out the network for the new PCS markets directly owned by Sprint.

Sprint PCS will require \$200 to \$300 million to fund operating cash requirements and to continue its network buildout. Global One will also require \$200 to \$300 million to fund operations and ongoing development activities.

Cash Paid for Dividends

Liquidity

At year-end 1997, Sprint could borrow \$1.0 billion under a revolving credit agreement with a syndicate of domestic and international banks. In addition, in 1997, Sprint negotiated a separate five-year revolving credit facility with a bank. At year-end 1997, Sprint's unused capacity under the committed portion of this facility was \$100 million. Sprint may also offer for

It all happens here ...

Sprint, the first long distance carrier to introduce prepaid calling cards in

the United States, placed its 100 mil-

lionth prepaid calling card on the

market in 1997, becoming the first

communications provider to reach

this milestone. Sprint is recognized as

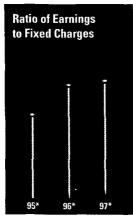
Prepaid Cards

the industry leader.

sale up to \$1.1 billion of debt securities under shelf registration statements filed with the Securities and Exchange Commission. Any borrowings Sprint may incur are ultimately limited by certain debt covenants. At year-end 1997, Sprint could borrow up to \$13.5 bil-

lion under the most restrictive of its debt covenants.

The most restrictive covenant related to dividends results from Sprint's revolving credit agreement. Among other restrictions, Sprint must maintain specified levels of consolidated net worth. As a result, \$2.7 billion of Sprint's \$3.7 billion retained earnings was restricted from the payment of dividends at yearend 1997.



*Excludes nonrecurring items

Review of Financial Condition, Capital Requirements and Liquidity continued

Financial Strategies

General Hedging Policies

Sprint selectively enters into interest rate swap and cap agreements to manage its exposure to interest rate changes on its debt. Sprint also enters into forward contracts and options in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint seeks to minimize counterparty credit risk through stringent credit approval and review processes, the selection of only the most creditworthy counterparties, continual review and monitoring of all counterparties, and thorough legal review of contracts. Sprint also controls exposure to market risk by regularly monitoring changes in foreign exchange and interest rate positions under normal and stress conditions to ensure they do not exceed established limits.

Sprint's derivative transactions are used for hedging purposes only and comply with Board-approved policies. Senior management receives monthly status updates of all outstanding derivative positions.

Interest Rate Risk Management

Sprint's interest rate risk management program focuses on minimizing exposure to interest rate movements, setting an optimal mixture of floating- and fixed-rate debt, and minimizing liquidity risk. Sprint uses simulation analysis to assess its interest rate exposure and establish the desired ratio of floating- and fixed-rate debt. To the extent possible, Sprint manages interest rate exposure and the floating-to-fixed ratio through its borrowings, but sometimes uses interest rate swaps and caps to adjust its risk profile.

Foreign Exchange Risk Management

Sprint's foreign exchange risk management program focuses on hedging transaction exposure to optimize consolidated cash flow. Sprint's main transaction exposure results from net payments made to overseas telecommunications companies for completing international calls made by Sprint's domestic customers.

Year 2000 Issue

The "Year 2000" issue affects Sprint's installed computer systems, network elements, software applications, and other business systems that have time-sensitive programs that may not properly reflect or recognize the year 2000. Because many computers and computer applications define dates by the last two digits of the year, "00" may not be properly identified as the year 2000. This error could result in miscalculations or system failures.

Sprint started a program in 1996 to identify and address the Year 2000 issue. It is taking an inventory of its network and computer systems and is creating and implementing plans to make them Year 2000 compliant. Sprint is using both internal and external sources to identify, correct or reprogram, and test its systems for Year 2000 compliance. The total cost of modifications and conversions is not known at this time; however, it is not expected to be material to Sprint's financial position, results of operations or cash flows and is being expensed as incurred.

The Year 2000 issue may also affect the systems and applications of Sprint's customers, vendors or resellers. Sprint is also contacting others with whom it conducts business to receive the appropriate warranties and assurances that those third parties are, or will be, Year 2000 compliant.

If compliance is not achieved in a timely manner, the Year 2000 issue could have a material effect on Sprint's operations. However, Sprint is focusing on identifying and addressing all aspects of its operations that may be affected by the Year 2000 issue and is addressing the most critical applications first. As a result, Sprint management does not believe its operations will be materially adversely affected.

Impact of Recently Issued Accounting Pronouncements

See Note 16 of Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Consolidated Statements of Common Stock and Other Shareholders' Equity

	Common Shares Outstanding	Common Stock	Class A Common Stock	Capital in Excess of Par or Stated Value	Retained Earnings	Treasury Stock	Other	Total
(in millions)								
Beginning 1995 balance	348.3	\$871.4	\$	\$ 942.9	\$2,730.6	\$ (9.6)	\$ (10.5)	\$4,524.8
Net income	_	· —		. —	395.3			395.3
Common stock dividends		_			(348.9)			(348.9)
Common stock issued	0.6	1.4		13.5	_			14.9
Treasury stock issued	0.3	_	_		(3.5)	9.6	_	6.1
Change in unrealized								
holding gains on			: 1					
investments, net		—		_	_		54.6	54.6
Other, net	_	0.1		3.6	(0.6)		(7.3)	(4.2)
Ending 1995 balance	349.2	872.9		960.0	2,772.9		36.8	4,642.6
Net income	_				1,183.8			1,183.8
Common stock dividends	_		_	_	(346.1)			(346.1)
Class A common stock								
and preference					!	!		
stock dividends	_	_			(74.9)			(74.9)
Common stock issued	1.1	2.5	_	17.5				20.0
Class A common stock								
issued	86.2		215.6	3,436.3				3,651.9
Treasury stock purchased	(10.1)					(407.2)		(407.2)
Treasury stock issued	3.7				(52.9)	145.0		92.1
Spinoff of cellular								
division	-	<u> </u>		_	(260.2)			(260.2)
Other, net		0.3		12.1	(0.2)		5.7	17.9
Ending 1996 balance	430.1	875.7	215.6	4,425.9	3,222.4	(262.2)	42.5	8,519.9
Net income		_		_	952.5			952.5
Common stock dividends	-	-	_	_	(343.3)		_	(343.3)
Class A common stock	'							
dividends	-		_]. ————————————————————————————————————	(86.2)		_	(86.2)
Treasury stock purchased	(3.0)	_		_	_	(144.5)	_	(144.5)
Treasury stock issued	2.9	_		_	(48.8)	113.8	<u> </u>	65.0
Tax benefit from stock								
options exercised		 		26.2			_	26.2
Other, net				5.6	(3.5)		33.5	35.6
Ending 1997 balance	430.0	\$ 875.7	\$ 215.6	\$ 4,457.7	\$ 3,693.1	\$ (292.9)	\$ 76.0	\$ 9,025.2

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The consolidated financial statements include the accounts of Sprint Corporation and its wholly owned and majority-owned subsidiaries (Sprint). Investments in entities in which Sprint exercises significant influence, but does not control, are accounted for using the equity method (see Note 2).

The consolidated financial statements are prepared according to generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

Sprint applied Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," to its financial statements until December 1995. Under SFAS 71, revenues and related net income resulting from transactions between Sprint's nonregulated operations and its regulated local exchange carriers were not eliminated from the consolidated financial statements. Revenues from these intercompany transactions were \$262 million in 1995. All other significant intercompany transactions have been eliminated.

Classification of Operations

The long distance division provides domestic and international voice, video and data communications services. The division offers its services to the public subject to varying levels of state and federal regulation, but rates are generally not subject to rate-base regulation.

The local division consists of regulated telephone companies. These operations provide local exchange services, access by telephone customers and other carriers to local exchange facilities, sales of telecommunications equipment and long distance services within specified geographical areas.

The product distribution and directory publishing division provides wholesale distribution services of telecommunications products, and publishes and markets white and yellow page telephone directories.

Emerging businesses consists of activities related to consumer Internet access services, mainly through *Sprint Internet Passport*; competitive local exchange carrier services; personal communication services (PCS) controlled by Sprint; international development activities (outside the scope of the Global One joint venture); and integration, management and support services for computer networks through Sprint Paranet.

Revenue Recognition

Sprint recognizes operating revenues as services are rendered or as products are delivered to customers. Sprint records operating revenues net of an estimate for uncollectible accounts.

Cash and Equivalents

Cash equivalents generally include highly liquid investments with original maturities of three months or less. They are stated at cost, which approximates market value. Sprint uses controlled disbursement banking arrangements as part of its cash management program. Outstanding checks in excess of cash balances, which were included in accounts payable, totaled \$225 million at year-end 1997 and \$127 million at year-end 1996. Sprint had sufficient funds available to fund these outstanding checks when they were presented for payment.

Investments in Debt and Equity Securities

Investments in debt and equity securities are classified as available for sale and reported at fair value (estimated based on quoted market prices). Gross unrealized holding gains and losses are reflected as adjustments to "Common stock and other shareholders' equity — Other," net of related income taxes.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Generally, ordinary asset retirements and disposals are charged against accumulated depreciation with no gain or loss recognized. Repairs and maintenance costs are expensed as incurred.

Depreciation

The cost of property, plant and equipment is generally depreciated on a straight-line basis over estimated economic useful lives. Prior to Sprint's discontinued use of SFAS 71 at year-end 1995, the cost of property, plant and equipment for the local division had been generally depreciated on a straight-line basis over lives prescribed by regulatory commissions.

Income Taxes

Sprint records deferred income taxes based on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for tax purposes.

Investment tax credits related to regulated telephone property, plant and equipment have been deferred and are being amortized over the estimated useful lives of the related assets.

Capitalized Interest

Sprint capitalizes interest costs related to constructing capital assets, and to its investments in Sprint Spectrum Holding Company, L.P. (Sprint PCS) and its directly owned PCS licenses. Sprint stopped capitalizing interest on its Sprint PCS investment in July 1997 because Sprint PCS no longer qualified as a development-stage company. Capitalized interest totaled \$93 million in 1997, \$104 million in 1996 and \$57 million in 1995.

2. Investments

Investments in Equity Securities

The cost of investments in equity securities was \$105 million at year-end 1997 and 1996. Gross

In 1997, Sprint continued its technological leadership position in Frame Relay, which has revolutionized business data networking. Sprint unveiled multiple new classes of service, which are tailored to meet such business needs as inventory control, e-mail, order entry and payroll.

Frame Relay

It all happens here ...

unrealized holding gains were \$198 million at year-end 1997 and \$149 million at year-end 1996.

Investments in and Loans to Affiliates

Investments accounted for using the equity method mainly consist of Sprint's investments in Sprint PCS and Global One.

Sprint is a 40% partner in Sprint PCS, a partnership with Tele-Communications, Inc., Comcast Corporation and Cox Communications, Inc. Sprint PCS is building the nation's first single-technology, state-of-the-art wireless network to provide PCS across the United States.

Sprint is also a partner in Global One, a joint venture with Deutsche Telekom AG (DT) and France Telecom (FT) formed to provide seamless global telecommunications services to business, residential and carrier markets worldwide. Sprint is a one-third partner in Global One's operating group serving Europe (excluding France and Germany), and is a 50% partner in Global One's operating group for the worldwide activities outside the United States and Europe. At year-end 1997, Sprint's share of underlying equity in Global One's net assets exceeded the carrying value of Sprint's investment in Global One by \$158 million. This difference is being amortized through January 2001.

Notes to Consolidated Financial Statements continued

Combined, summarized financial information (100% basis) of all entities accounted for using the equity method is as follows:

(in millions)	1997	1996	1995
Results of Operations Net operating revenues	\$ 2,195.6	\$1,727.9	\$ 779.5
Operating loss	\$ (2,162.2)	\$ (794.0)	\$ (58.3)
Net loss	\$ (2,459.0)	\$ (844.3)	\$ (90.6)
Financial Position Current assets Noncurrent assets Total	\$ 2,331.5 10,861.0 \$13,192.5	\$1,360.7 6,779.3 \$8,140.0	
Current liabilities Noncurrent liabilities Owners' equity Total	\$ 2,800.2 6,395.2 3,997.1 \$13,192.5	\$1,185.5 2,042.1 4,912.4 \$8,140.0	

At year-end 1997 and 1996, Sprint's investment in Sprint PCS, including advances and a vendor financing loan, totaled \$1.2 billion. Sprint's investment in Global One, including advances, totaled \$93 and \$38 million, respectively.

In 1996, Sprint purchased \$183 million (face value) of Sprint PCS Senior Discount notes for \$100 million. The bonds mature in 2006. At year-end 1997 and 1996, the accreted cost of the notes was \$118 and \$104 million and gross unrealized holding gains totaled \$24 and \$18 million, respectively. This investment has been included in "Current assets — Other" on the Consolidated Balance Sheets.

3. Employee Benefit Plans

Defined Benefit Pension Plan

Substantially all Sprint employees are covered by a noncontributory defined benefit pension plan. Benefits for plan participants represented by collective bargaining units are based on negotiated schedules of defined amounts. For participants not covered by collective bargaining agreements, the plan provides pension benefits based on years of service and participants' compensation. Sprint's policy is to make annual plan contributions equal to an actuarially determined amount consistent with applicable federal tax regulations. The funding objective is to accumulate funds at a relatively stable rate over the participants' working lives so benefits are fully funded at retirement. At year-end 1997, the plan's assets consisted mainly of investments in corporate equity securities and U.S. government and corporate debt securities.

The net pension cost (credit) consists of the following:

-				
(in millions)	1997		1996	1995
Service cost – benefits earned during the period	\$ 61.7	\$	65.4	\$ 51.8
Interest cost on projected benefit obligation Actual return on	148.9	,	138.5	129.7
plan assets Net amortization and deferral	(448.5) 240.0		(353.0)	(472.1) 287.9
Net pension cost (credit)	\$ 2.1	\$	10.3	\$ (2.7)
Discount rate Expected long-term rate	7.75%		7.25%	8.50%
of return on plan assets Anticipated composite rate of future	9.50%		9.50%	9.50%
compensation increases	4.75%		4.25%	5.00%

At year-end, the funded status and amounts recognized in the Consolidated Balance Sheets for the plan were as follows:

(in millions)	1997	1996
Actuarial present value of benefit obligations Vested benefit obligation	\$(1,966.7)	\$(1,713.6)
Accumulated benefit obligation	\$(2,129.6)	\$(1,864.1)
Projected benefit obligation Plan assets at fair value	\$(2,240.9) 2,929.4	\$(1,967.0) 2,584.2
Plan assets in excess of the projected benefit obligation Unrecognized net gains Unrecognized prior service cost Unamortized transition asset	688.5 (585.2) 105.4 (122.1)	617.2 (481.8) 100.4 (147.1)
Prepaid pension cost	\$ 86.6	\$ 88.7
Discount rate Anticipated composite rate of future compensation increases	7.25% 4.25%	

Defined Contribution Plans

Sprint sponsors defined contribution employee savings plans covering substantially all employees. Participants may contribute portions of their pay to the plans. For employees represented by collective bargaining units, Sprint matches contributions based on negotiated amounts. Sprint also matches contributions of employees not covered by collective bargaining agreements. For those participants, Sprint matches their contributions in Sprint common stock. The matching is equal to 50% of participants' contributions up to 6% of their pay. In addition, Sprint may, at the discretion of the Board of Directors, provide matching contributions based on the performance of Sprint common stock compared to other telecommunications companies' stock. Sprint's matching contributions were \$54 million in 1997, \$56 million in 1996 and \$51 million in 1995. At year-end 1997, the plans held 20 million Sprint common shares.

Postretirement Benefits

Sprint provides postretirement benefits (principally medical benefits) to substantially all employees. Employees retiring before certain dates are eligible for benefits at no cost, or at a reduced cost. Employees retiring after certain dates are eligible for benefits on a shared-cost basis. Sprint funds the accrued costs as benefits are paid.

The net postretirement benefits cost consists of the following:

(in millions)	1997	1996	1995
Service cost – benefits earned during the year Interest on accumulated	\$ 20.8	\$ 21.7	\$ 22.2
postretirement benefit obligation Net amortization and	52.3	49.9	58.7
deferral	(19.4)	(13.7)	(9.4)
Net postretirement benefits cost	\$ 53.7	\$ 57.9	\$ 71.5
Discount rate	7.75%	7.25%	8.50%

For measurement purposes, the assumed 1997 weighted average annual health care cost trend rate was 9%, gradually decreasing to an ultimate level

It all happens here ... Home-based Dusinesses

The 21 million home-based businesses in the United States can now simplify and better control communications spending. *Sprint Sense Home Office* packages long distance service, a toll-free 800 number and a Sprint Foncard for one low monthly rate. For more information, call 1-800-793-7300.

of 5% by 2005. A 1% increase in the rate would have increased the 1997 net postretirement benefits cost by an estimated \$12 million.

Amounts included in the Consolidated Balance

Sheets at year-end are as follows:

(in millions)	1997	1996
Accumulated postretirement		
benefit obligation	-	
Retirees	\$ 328.3	\$ 277.9
Active plan participants –		
Fully eligible	145.2	127.6
Other	269.9	320.7
	743.4	726.2
Unrecognized prior service		
benefit	5.4	5.7
Unrecognized net gains	190.0	178.7
Accrued postretirement		
benefits cost	\$ 938.8	\$ 910.6
Discount rate	7.25%	7.75%

The assumed 1998 annual health care cost trend rate was 8.5%, gradually decreasing to an ultimate level of 5% by 2005. A 1% increase in the rate would have increased the 1997 accumulated postretirement benefit obligation by an estimated \$61 million.

4. Income Taxes

Income tax expense allocated to continuing operations consists of the following:

(in millions)	1997	1996	1995
Current income tax			
expense	\$. *		
Federal	\$ 385.9	\$ 655.4	\$ 437.4
State	78.9	75.9	91.1
Total current	464.8	731.3	528.5
Deferred income tax			
expense (benefit)			
Federal	174.3	(22.2)	45.9
State	(4.8)	23.5	(23.6)
Amortization of deferred			
investment tax credits	(3.8)	(11.6)	(16.5)
Total deferred	165.7	(10.3)	5.8
Total	\$ 630.5	\$ 721.0	\$ 534.3

Notes to Consolidated Financial Statements continued

The differences that cause the effective income tax rate to vary from the statutory federal rate of 35% were as follows:

(in millions)	1997	1996	1995
Income tax expense at the statutory rate Less investment	\$ 554.1	\$ 669.2	\$ 518.1
tax credits included in income	3.8	11.6	16.5
Expected federal income tax expense after investment tax credits Effect of State income taxes,	550.3	657.6	501.6
net of federal income tax effect Equity in losses of foreign joint	48.2	64.6	43.9
ventures	36.4	8.6	_
Other, net	(4.4)	(9.8)	(11.2)
Income tax expense, including investment tax credits	\$ 630.5	\$ 721.0	\$ 534.3
Effective income tax rate	39.8%	37.7%	36.1%

Income tax expense (benefit) allocated to other items was as follows:

(in millions)	1997	1996	1995
Discontinued operation	\$	\$ 7.0	\$ 31.2
Extraordinary items		(2.9)	(437.4)
Unrealized holding gains			
on investments(1)	4.4	1.7	30.7
Stock ownership,			
purchase and options			
arrangements(1)	(26.2)	(14.1)	(7.5)

⁽¹⁾ These amounts have been recorded directly to "Common stock and other shareholders' equity – Other."

Sprint recognizes deferred income taxes for the temporary differences between the carrying amounts of its assets and liabilities for financial statement purposes and their tax bases. The sources of the differences that give rise to the deferred income tax assets and liabilities at year-end 1997 and 1996, along with the income tax effect of each, were as follows:

		eferred ne Tax	1996 De Incom	
(in millions)	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment Postretirement and	s —	\$1,488.8	\$ —	\$1,304.3
other benefits	376.1	_	360.3	_
Reserves and allowances Unrealized holding	111.3		115.6	
gains on investments		61.7		57.3
Other, net	108.5	_	106.8	-
	595.9	1,550.5	582.7	1,361.6
Less valuation allowance	11.8		13.7	
Total	\$ 584.1	\$1,550.5	\$ 569.0	\$1,361.6

The valuation allowance related to deferred income tax assets decreased \$2 million in 1997 and \$4 million in 1996 and 1995.

Management believes it is more likely than not that these deferred income tax assets, net of the allowance, will be realized based on current income tax laws and expectations of future taxable income stemming from the reversal of existing deferred tax liabilities or ordinary operations. Uncertainties surrounding income tax law changes, shifts in operations between state taxing jurisdictions, and future operating income levels may, however, affect the ultimate realization of all or some of these deferred income tax assets.

At year-end 1997, Sprint had available for income tax purposes \$4 million of state alternative minimum tax credit carryforwards to offset state income tax payable in future years. In addition, Sprint had tax benefits of \$49 million related to state operating loss carryforwards. The loss carryforwards expire in varying amounts per year from 1998 through 2012.

Customar Valistaciton

Sprint fortified its reputation for exceptional customer satisfaction in 1997. A Yankee Group study ranked Sprint number one in the residential market for the fourth straight year. In the J.D. Power survey, Sprint was the highest ranking carrier among high-volume residential users for the third consecutive year.

5. Borrowings

Long-term Debt

Long-term debt at year-end was as follows:

(in millions)	Maturing	1997	1996
Corporate			
Senior notes			
8.1% to 9.8%	1998 to 2002	\$ 475.3	\$ 475.3
9.5%	2003 to 2007	200.0	200.0
Debentures			
9.0% to 9.3%	2019 to 2022	350.0	350.0
Notes payable and			
commercial paper		866.5	_
Other			
5.4% to 8.9% ⁽¹⁾	1998 to 2006	237.5	194.9
Long Distance			
Division			
Vendor financing			
agreements			
7.4% to 8.9%	1997 to 1999	23.8	44.8
Other			
6.2% to 8.4%	1997 to 2007	16.5	23.1
Local Division			
First mortgage bonds			
2.0% to 7.8%	1997 to 2002	452.3	487.0
4.0% to 7.8%	2003 to 2007	346.0	346.8
6.9% to 9.8%	2008 to 2012	116.7	116.7
6.9% to 8.8%	2013 to 2017	169.6	169.8
8.8% to 9.9%	2018 to 2022	244.9	245.7
7.1% to 8.4%	2023 to 2027	145.0	145.0
Debentures and notes			
5.8% to 9.6%	1998 to 2020	237.0	275.3
Other			
2.0% to 9.8%	1998 to 2006	4.6	6.2
Unamortized debt			
discount		(6.1)	(6.7)
		3,879.6	3,073.9
Less current maturities		131.0	99.1
Long-term debt		\$3,748.6	\$2,974.8

⁽¹⁾ Notes may be exchanged at maturity for Southern New England Telecommunications Corporation (SNET) common shares owned by Sprint, or for cash. Based on SNET's closing market price, had the notes matured at year-end 1997, they could have been exchanged for 3.8 million SNET shares. At year-end 1997, Sprint held 4.2 million SNET shares, which have been included in "Investments in equity securities" on the Consolidated Balance Sheets.

Long-term debt maturities, excluding reclassified short-term borrowings, during each of the next five years are as follows:

(in millions)	
1998	\$ 131.0
1999	33.4
2000	693.3
2001	40.8
2002	354.5

Property, plant and equipment with a total cost of \$12.9 billion is either pledged as security for first mortgage bonds and certain notes or is restricted for use as mortgaged property.

During 1996, Sprint redeemed, prior to scheduled maturities, \$190 million of debt with interest rates ranging from 6.0% to 9.5%. This resulted in a \$5 million after-tax extraordinary loss.

Short-term Borrowings

At year-end 1997, Sprint had borrowed \$618 million of bank notes payable and \$249 million of commercial paper. Though these borrowings are renewable at various dates throughout the year, they have been classified as long-term debt because of Sprint's intent and ability, through unused credit facilities, to refinance these borrowings. Commercial paper and certain bank notes payable are supported by Sprint's revolving credit facility with a syndicate of domestic and international banks. Other notes payable relate to a separate revolving credit facility that Sprint executed with a bank in 1997. At year-end 1997, Sprint's unused lines of credit totaled \$1.1 billion.

Bank notes outstanding at year-end 1997 and 1996 had weighted average interest rates of 6.1% and 5.9%, respectively. At year-end 1997, the weighted average interest rate of commercial paper was 6.8%.

Other

Sprint was in compliance with all restrictive or financial covenants relating to its debt arrangements at year-end 1997.

Notes to Consolidated Financial Statements continued

6. Redeemable Preferred Stock

Sprint has approximately 22 million authorized preferred shares, including nonredeemable preferred stock. The redeemable preferred stock outstanding, at yearend, is as follows:

(in millions, except per share and share data)	1997	1996
Fifth series – stated value \$100,000 per share, shares – 95, voting, cumulative 6% annual dividend rate Other – stated value \$100 per share, shares – 19,493 and 22,800, 4.7%	\$ 9.5	\$ 9.5
annual dividend rate	2.0	2.3
Total	\$ 11.5	\$ 11.8

Sprint's Fifth series preferred stock must be redeemed in full in 2003. If less than full dividends have been paid for four consecutive dividend periods, or if dividends in arrears exceed an amount equal to the dividends for six dividend periods, the Fifth series preferred shareholders may elect a majority of directors standing for election until all dividends in arrears have been paid.

7. Common Stock

Common Stock

At year-end 1997, common stock reserved for future grants under stock option plans or for future issuances under various other arrangements was as follows:

(in millions)	Shares
Employees Stock Purchase Plan	6.4
Employee savings plans	3.4
Automatic Dividend Reinvestment Plan	1.2
Officer and key employees' and directors'	
stock options	8.2
Conversion of preferred stock and other	1.4
Total	20.6

Under a Shareholder Rights Plan, one preferred stock purchase right is attached to each common and Class A common share. Each right is exercisable only if certain takeover events occur. Each right will initially entitle the holder to purchase 1/1000 of a share

(a Unit) of a no par Preferred Stock-Sixth Series, Junior Participating (Preferred Stock) at \$225 per Unit or, in certain cases, common stock. The Preferred Stock is voting, cumulative and accrues dividends on a quarterly basis generally equal to the greater of \$100 per share or 1,000 times the total per share amount of all common dividends. No Preferred Stock shares were issued or outstanding at year-end 1997. The rights may be redeemed by Sprint at \$0.01 per right and will expire in June 2007, unless extended.

During 1997, 1996 and 1995, Sprint declared and paid annual common stock dividends of \$1.00 per share. The most restrictive covenant related to common dividends results from Sprint's \$1.5 billion revolving credit agreement. Among other restrictions, this agreement requires Sprint to maintain specified levels of consolidated net worth. Due to this requirement, \$2.7 billion of Sprint's \$3.7 billion consolidated retained earnings was effectively restricted from the payment of dividends at year-end 1997. The indentures and financing agreements of certain of Sprint's subsidiaries contain provisions limiting cash dividend payments on subsidiary common stock held by Sprint. As a result, \$567 million of those subsidiaries' \$1.3 billion total retained earnings was restricted at year-end 1997. The flow of cash in the form of advances from the subsidiaries to Sprint is generally not restricted.

During 1990, the Savings Plan Trust, an employee savings plan, acquired common stock from Sprint in exchange for a \$75 million promissory note payable to Sprint. The note bears interest at 9% and is to be repaid from common stock dividends received by the plan and contributions made to the plan by Sprint according to plan provisions. The remaining \$34 million note receivable balance at year-end 1997 is reflected as a reduction to "Common stock and other shareholders' equity — Other."

Class A Common Stock

In January 1996, DT and FT acquired shares of a new class of convertible preference stock for a combined total of \$3.0 billion. This resulted in DT and FT each holding 7.5% of Sprint's voting power. In April 1996, following the spinoff of Sprint's cellular division

Sprint Paranot

In 1997, Sprint acquired Paranet, Inc., a leading provider of integration management and support services for distributed computing technology. The acquisition augments Sprint's data products and services with Paranet's expertise in local area networks (LANs) and distributed network systems.

(Cellular) (see Note 14), the preference stock was converted into Class A common stock, and DT and FT each acquired additional Class A common shares. Following their combined investment of \$3.7 billion, DT and FT each own Class A common shares with 10% of Sprint's voting power. During 1997, Sprint declared and paid Class A common dividends of \$1.00 per share. During 1996, preference dividends totaled \$0.16 per share, and Class A common dividends totaled \$0.75 per share.

DT and FT, as Class A common shareholders, have the right in most circumstances to proportionate representation on Sprint's Board of Directors. They may also purchase additional Class A common shares from Sprint to keep their ownership level at 10% each. DT and FT have entered into a standstill agreement with Sprint restricting their ability to acquire Sprint voting shares (other than as intended by their investment agreement with Sprint and related agreements). The standstill agreement also contains customary provisions restricting DT and FT from initiating or participating in any proposal with respect to the control of Sprint.

8. Stock-based Compensation

Sprint's Management Incentive Stock Option Plan (MISOP) provides for the granting of stock options to employees who are eligible to receive annual incentive compensation. Eligible employees are entitled to receive stock options in lieu of a portion of the target incentive under Sprint's management incentive plans. The options generally become exercisable on December 31 of the year granted and have a maximum term of 10 years. MISOP options are granted with exercise prices equal to the market price of Sprint's common stock on the grant date. At year-end 1997, authorized shares under this plan approximated 11 million. This amount increased by approximately 3 million shares on January 1, 1998.

The Sprint Corporation Stock Option Plan (SOP) provides for the granting of stock options to officers and key employees. The options generally become exercisable at the rate of 25% per year, beginning

one year from the grant date, and have a maximum term of 10 years. SOP options are granted with exercise prices equal to the market price of Sprint's common stock on the grant date. At year-end 1997, authorized shares under this plan approximated 20 million.

Every two years, the Employees Stock Purchase Plan (ESPP) offers all employees the election to purchase Sprint common stock at a price equal to 85% of the market value on the grant or exercise date, whichever is less. At year-end 1997, authorized shares under this plan approximated 18 million.

In 1996, Sprint adopted the pro forma disclosure requirements under SFAS No. 123, "Accounting for Stock-based Compensation," and continued to apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," to its stock option and employee stock purchase plans. Under APB 25, Sprint has recognized no compensation expense related to these plans.

Pro forma net income and earning per share (EPS) have been determined as if Sprint had used the fair value method of accounting for its stock option grants and ESPP share elections after 1994. Under this method, compensation expense is recognized over the applicable vesting periods and is based on the shares under option and their related fair values on the grant date.

The following pro forma information will not likely represent the information reported in future years because options granted and ESPP shares elected after 1994 will continue to vest over the next several years. In addition, compensation expense resulting from the spinoff of Cellular (Spinoff) (see Note 14) will decline over the next several years.

Notes to Consolidated Financial Statements continued

Sprint's pro forma net income and EPS were as follows:

(in millions, except per share data)	1997(1)	1996 ⁽¹⁾	1995
Pro forma net income	\$ 908	\$1,158	\$ 388
Pro forma basic EPS	\$ 2.11	\$ 2.74	\$ 1.11

(1)Pro forma net income was reduced by \$3 million (\$0.01 per share) in 1997 and \$6 million (\$0.01 per share) in 1996 due to additional compensation resulting from modifications to terms of options and ESPP share elections made in connection with the Spinoff.

During 1996, Sprint employees elected to purchase 2.8 million ESPP shares with a weighted average fair value (using the Black-Scholes pricing model) of \$10.06 per share. No ESPP shares were offered in 1997 or 1995.

The following tables reflect the weighted average fair value per option granted during the year, as well as the significant weighted average assumptions used in determining those fair values using the Black-Scholes pricing model:

1997	MISOP	SOP
Fair value on grant date	\$ 9.66	\$ 11.74
Risk-free interest rate	6.2%	6.2%
Expected volatility	22.8%	22.8%
Expected dividend yield	2.3%	2.3%
Expected life (years)	4	6
1996	MISOP	SOP
Fair value on grant date	\$ 9.17	\$10.96
Risk-free interest rate	5.2%	5.2%
Expected volatility	23.3%	23.3%
Expected dividend yield	2.5%	2.5%
Expected life (years)	4	6
1995	MISOP	SOP
Fair value on grant date	\$ 6.67	\$ 8.73
Risk-free interest rate	6.9%	7.2%
Expected volatility	23.3%	23.3%
Expected dividend yield	2.5%	2.5%
Expected life (years)	4	6

Stock option plan activity was as follows:

(in millions, except per share data)	Shares ⁽¹⁾	Weighted Average per Share Exercise Price ⁽¹⁾
Outstanding, beginning of 1995	9.3	\$24.67
Granted	4.3	24.69
Exercised	(0.8)	19.81
Forfeited/Expired	(0.5)	27.06
Outstanding, year-end 1995	12.3	24.88
Granted	4.9	36.94
Exercised	(2.6)	22.28
Forfeited/Expired	(1.0)	29.22
Outstanding, year-end 1996	13.6	29.42
Granted	9.4	46.14
Exercised	(3.4)	27.17
Forfeited/Expired	(0.9)	38.10
Outstanding, year-end 1997	18.7	\$ 37.85

(1) Due to the Spinoff, the shares and related exercise prices have been adjusted to maintain both the total fair market value of common stock underlying the options, and the relationship between the market value of Sprint's common stock and the option's exercise price.

Outstanding options held by Cellular employees were converted into options and grants to purchase Cellular common stock and are not included in the above table.

After adjustment for the Spinoff, options exercisable at year-end 1996 and 1995 were 8.4 and 6.4 million, respectively. At year-end 1996, the weighted average exercise price for exercisable options was \$27.77. The following table summarizes outstanding and exercisable options at year-end 1997:

Options Outstanding Options Exercisable					
Range of Exercise Prices	Number Outstanding (in millions)	Weighted Average Remaining Contractural Life (in years)	Weighted Average Exercise Price	Number Exercisable (in millions)	Weighted Average Exercise Price
\$11.92 -\$14.96	0.1	2.2	\$14.31	0.1	\$14.31
\$15.18 - \$19.24	0.1	3.7	17.91	0.1	17.91
\$20.08 - \$24.50	2.7	6.2	23.71	1.7	23.30
\$25.11 -\$29.96	1.8	4.7	27.38	1.4	26.80
\$30.22 -\$39.94	5.0	7.6	35.16	3.0	34.28
\$40.06 -\$49.88	7.3	8.5	44.88	1.9	43.33
\$50.31 -\$58.38	1.7	7.4	51.92	0.1	51.69

9. Commitments and Contingencies

Litigation, Claims and Assessments

In December 1996, an arbitration panel entered a \$61 million award in favor of Network 2000 Communications Corporation (Network 2000) on its breach of contract claim against Sprint. The arbitrators directed Sprint to pay one-half of this award to Network 2000. The remainder was directed to be paid to the Missouri state court in which a proposed class action by Network 2000's independent marketing representatives against Network 2000 and Sprint is pending.

Sprint filed an action in federal district court seeking to have the arbitration panel's award struck down, modified, or corrected, and asking the court to enter an order regarding the distribution of the award. In April 1997, the court denied Sprint's request that the arbitration award be struck down and granted Network 2000's request that the award be confirmed.

In June 1997, Sprint recorded an additional \$20 million charge in connection with the settlement of both the class action lawsuit against Sprint and Network 2000 and the related claims of Network 2000 against Sprint. The court has preliminarily approved the class action settlement and final approval is expected. Sprint believes this will complete the Network 2000 litigation.

Various other suits arising in the ordinary course of business are pending against Sprint. Management cannot predict the final outcome of these actions but believes they will not result in a material effect on Sprint's consolidated financial statements.

Commitments

Sprint expects to invest \$200 to \$300 million in Sprint PCS in 1998 to continue its network buildout and for operating cash requirements. Sprint also expects Global One to require \$200 to \$300 million for ongoing operating and capital requirements.

Contingencies

On January 1, 1998, a "Deadlock Event" occurred due to the failure of the Sprint PCS partnership board to approve the proposed Sprint PCS budget and business plan.

RadioShack is proving to be a powerful distribution channel for Sprint. RadioShack launched a "store-withina-store" concept in 6,000 outlets in 1997. More than 25,000 RadioShack employees are trained to sell Sprint products and services. One million people walk into a RadioShack store everyday.

Retail Distribution

It all happens here...

Under the partnership agreement, if a partner refers the issue for resolution pursuant to specified procedures and it remains unresolved, buy/sell provisions can be triggered, which could result in Sprint either increasing or selling its partnership interest. Discussions among the partners about restructuring their interests in Sprint PCS are ongoing. However, there is no certainty the discussions will result in a change to the partnership structure.

Operating Leases

Minimum rental commitments at year-end 1997 for all noncancelable operating leases, consisting mainly of leases for data processing equipment and real estate, are as follows:

(in millions)	
1998	\$324.1
1999	276.4
2000	174.2
2001	119.1
2002	97.1
Thereafter	243.7

Gross rental expense totaled \$410 million in 1997, \$401 million in 1996 and \$402 million in 1995. Rental commitments for subleases, contingent rentals and executory costs were not significant.

Notes to Consolidated Financial Statements continued

10. Financial Instruments

Fair Value of Financial Instruments

Sprint estimates the fair value of its financial instruments using available market information and appropriate valuation methodologies. As a result, the following estimates do not necessarily represent the values Sprint could realize in a current market exchange. Although management is not aware of any factors that would affect the estimated fair values presented at year-end 1997, those amounts have not been comprehensively revalued for purposes of these financial statements since that date. Therefore, estimates of fair value after year-end 1997 may differ significantly from the amounts presented below. The carrying amounts and estimated fair values of Sprint's financial instruments at year-end were as follows:

	19	97	199	96
(in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and				
equivalents	\$ 101.7	\$ 101.7	\$1,150.6	\$1,150.6
Investment				
in affiliate				
debt securities	142.4	142.4	122.5	122.5
Investments in				
equity securities	303.0	303.0	254.5	254.5
Financial Liabilities		i		
Short-term				
borrowings	_	_	200.0	200.0
Long-term debt				
Corporate	2,129.3	2,301.8	1,220.2	1,348.9
Long distance				
division	40.3	41.7	67.9	69.0
Local division	1,710.0	1,812.3	1,785.8	1,846.9
Other Financial				
Instruments				
Interest rate swap				
agreements	_	0.3	_	0.2
Foreign currency	}	}	}	
contracts	(0.6)	(0.6)	(0.5)	(0.5)

The carrying values of Sprint's cash and equivalents approximate fair value at year-end 1997 and 1996. The estimated fair value of Sprint's investments in debt and equity securities is based on quoted market prices. The estimated fair value of Sprint's long-term debt is based on quoted market prices for publicly traded issues. The estimated fair value of all other issues is based on the present value of estimated future cash flows using a discount rate based on the risks involved. The estimated fair value of interest rate swap agreements is the amount Sprint would receive to terminate the swap agreements at year-end 1997 and 1996, taking into account the then-current interest rates. The estimated fair value of foreign currency contracts is the replacement cost of the contracts at year-end 1997 and 1996, taking into account the then-current foreign currency exchange rates.

Concentrations of Credit Risk

Sprint's accounts receivable are not subject to any concentration of credit risk. Sprint controls credit risk of its interest rate swap agreements and foreign currency contracts through credit approvals, dollar exposure limits and internal monitoring procedures. In the event of nonperformance by the counterparties, Sprint's accounting loss would be limited to the net amount it would be entitled to receive under the terms of the applicable interest rate swap agreement or foreign currency contract. However, Sprint does not anticipate nonperformance by any of the counterparties related to these agreements.

Interest Rate Swap Agreements

Sprint uses interest rate swap agreements as part of its interest rate risk management program. Net interest paid or received related to these agreements is recorded using the accrual method and is recorded as an adjustment to interest expense. Sprint had interest rate swap agreements with notional amounts of \$150 and \$350 million outstanding at year-end 1997 and 1996, respectively. Net interest expense (income) related to interest rate swap agreements was \$(200,000) in 1997, \$2 million in 1996 and \$(400,000) in 1995. There were no deferred gains or losses related to any terminated interest rate swap agreements at year-end 1997, 1996 or 1995.

Foreign Currency Contracts

As part of its foreign currency exchange risk management program, Sprint purchases and sells over-thecounter forward contracts and options in various foreign currencies. Sprint had outstanding \$29 and \$46 million of open forward contracts to buy various foreign currencies at year-end 1997 and 1996, respectively. Sprint had \$14 and \$3 million of outstanding open purchase option contracts to call various foreign currencies at year-end 1997 and 1996, respectively. The premium paid for an option is expensed as incurred. The fair value of an option is recorded as an asset at the end of each period. The forward contracts and options open at year-end 1997 and 1996 all had original maturities of six months or less. The net gain or loss recorded to reflect the fair value of these contracts is recorded in the period incurred. Total net losses of \$40,000 in 1997, \$400,000 in 1996 and \$1 million in 1995 were recorded related to foreign currency transactions and contracts.

11. Earnings per Share

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128, "Earnings per Share." This new standard simplifies the EPS calculation and makes the U.S. standard for computing EPS more consistent with international accounting standards. Sprint adopted SFAS 128 at year-end 1997. EPS for prior years has been restated to comply with SFAS 128.

Under SFAS 128, primary EPS was replaced with a simpler calculation called basic EPS. Basic EPS is calculated by dividing income available to common shareholders by the weighted average common shares

It all happens here ... Health Care Systems

Sprint's portfolio of network-based information management system services continued to grow in 1997. Sprint Healthcare Systems, Inc. and Quality Data Management, Inc. announced an agreement to co-market a patient-based quality/cost measurement system and other applications for health care providers.

outstanding. Previously, primary EPS was based on the weighted average of both outstanding and issuable shares assuming all dilutive options had been exercised. Under SFAS 128, fully diluted

EPS has not changed significantly, but has been renamed diluted EPS. Diluted EPS includes the effect of all potentially dilutive securities, such as options and convertible preferred stock.

Sprint's convertible preferred stock dividends were \$0.5 million in 1997, 1996 and 1995. Dilutive securities, such as options (see Note 8), included in the calculation of diluted weighted average common shares were 6.3 million shares in 1997, 5.3 million shares in 1996 and 2.6 million shares in 1995.

12. Paranet Acquisition

On September 30, 1997, Sprint paid \$375 million to purchase the net assets of Houston-based Paranet, Inc., a provider of integration, management and support services for computer networks. Sprint could pay up to an additional \$70 million if Sprint Paranet meets certain financial targets through 1998.

The transaction was accounted for using the purchase method of accounting. As a result, Sprint's financial statements reflect Sprint Paranet's results of operations beginning in October 1997.

The excess of the purchase price over the tangible net assets acquired was \$357 million. This excess was allocated to noncompete agreements and goodwill, and will be amortized on a straight-line basis over four to 10 years.

Notes to Consolidated Financial Statements continued

13. Adoption of Accounting Principles for a Competitive Marketplace

At year-end 1995, Sprint determined that its local division no longer met the criteria necessary for the continued use of SFAS 71. As a result, 1995 operating results included a noncash, extraordinary charge of \$565 million, net of income tax benefits of \$437 million. The decision to discontinue using SFAS 71 was based on changes in the regulatory framework and the convergence of competition in the telecommunications industry.

The 1995 extraordinary charge recognized when Sprint discontinued using SFAS 71 consisted of the following:

(in millions)	Pretax	After-Tax
Increase in accumulated depreciation	\$ 979.1	\$ 607.9
Recognition of switch software asset Elimination of other net	(99.5)	(61.7)
regulatory assets	123.1	76.3
Total	\$1,002.7	622.5
Tax-related net regulatory liabilities Accelerated amortization of		(43.9)
investment tax credits		(13.3)
Extraordinary charge		\$ 565.3

14. Spinoff of Cellular Division

In March 1996, Sprint completed the tax-free spinoff of Cellular to Sprint common shareholders. To complete the Spinoff, Sprint distributed all Cellular common shares at a rate of one share for every three Sprint common shares held. In addition, Cellular repaid \$1.4 billion of its intercompany debt owed to Sprint. Sprint also contributed to Cellular's equity capital \$185 million of debt owed by Cellular in excess of the amount repaid.

Cellular's net operating results, as summarized below, were separately classified as a discontinued operation in the Consolidated Statements of Income. Interest

expense was allocated to Cellular based on the assumed repayment of intercompany debt to Sprint by Cellular. The operating expenses as presented below do not include Cellular's share of Sprint's general corporate overhead expenses. These expenses, totaling \$2 million in 1996 and \$13 million in 1995, were reallocated to Sprint's other operating segments.

(in millions)	1996 ⁽¹⁾	1995
Net operating revenues Operating expenses	\$ 190.2 156.0	\$ 834.4 675.6
Operating income Interest expense Other income (expense), net	34.2 (21.5) (8.3)	158.8 (124.0) 10.9
Income before income taxes Income taxes	4.4 (7.0)	45.7 (31.2)
Income (Loss) from cellular division	\$ (2.6)	\$ 14.5

^{(1) 1996} reflects Cellular's operating results only through the date of the Spinoff.

15. Additional Financial Information

Segment Information

Information related to Sprint's operating business segments is included in "Review of Segmental Results of Operations." The net operating revenues and operating expenses shown in those tables include revenues and expenses eliminated in consolidation. The amounts eliminated are as follows:

(in millions)	1997	1996	1995
Long distance division Local division Product distribution and directory	\$ 3.3 309.0	\$ 30.9 410.5	\$ 38.9 266.4
publishing Intercompany revenues not eliminated under	570.5	325.9	336.8
SFAS 71			(262.4)
Net operating revenues Operating expenses	882.8 845.8	767.3 735.7	379.7 379.7
Operating income	\$ 37.0	\$ 31.6	\$ —

Capital expenditures and identifiable assets not related to operating segments are as follows:

(in millions)	1997	1996	1995
Capital expenditures	\$ 142.3	\$ 98.0	\$ 37.0
Identifiable assets	\$2,301.2	\$2,818.9	\$2,917.9

Sprint's identifiable assets not related to operating segments mainly include investments and loans to affiliates as well as corporate property, plant and equipment. The 1995 amounts include the net assets of the discontinued cellular division.

Supplemental Cash Flows Information

(in millions)	1997	1996	1995
Cash paid for: Interest (net of amounts capitalized) Continuing operations	\$ 197.9	\$ 212.1	\$ 263.5
Cellular division	s —	\$ 21.5	\$ 124.0
Income taxes	\$ 365.8	\$ 695.3	\$ 532.8
Noncash activities: Capital lease obligations Tax benefit from stock options	\$ 30.1	\$	\$
exercised	\$ 26.2	\$ 14.1	\$ 7.5
Net book value of assets and liabilities contributed to Global One	s –	\$ 73.3	\$
Common stock issued under Sprint's ESPP	\$ 5.2	\$ 65.2	\$ 3.0

During 1996, Sprint completed the Spinoff (see Note 14) which had no immediate effect on cash flows other than Cellular's repayment of \$1.4 billion in intercompany debt owed to Sprint.

It all happens here...

Hearing-impaired

Sprint is the number one provider of Telecommunications Relay Service (TRS), serving 21 states and the federal government. Sprint's highly trained TRS relay operators serve as professional intermediaries, relaying phone conversations back and forth between standard voice telephone users and text telephone users.

Supplemental Related Party Transactions

Sprint provided various voice, data and administrative services to Global One totaling \$415 million in 1997 and \$361 million in 1996. In addition,

Global One provided data and administrative services to Sprint totaling \$114 million in 1997 and \$130 million in 1996. At year-end 1997 and 1996, Sprint's receivable from Global One was \$154 and \$163 million, respectively, and Sprint's payable to Global One was \$104 and \$49 million, respectively.

Restructuring Charge

In 1995, Sprint's local division recorded an \$88 million restructuring charge, which reduced income from continuing operations by \$55 million (\$0.16 per share). The restructuring plan included the planned elimination over several years of approximately 1,600 positions, mainly in the network and finance functions. Through 1997, most of the positions have been eliminated resulting in termination benefit payments of \$42 million, with the remainder to be paid in 1998 and 1999.

Notes to Consolidated Financial Statements

16. Recently Issued Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting and display of comprehensive income and its components. Comprehensive income includes all changes in equity during a period except those due to owner investments and distributions. It includes items such as foreign currency translation adjustments, and unrealized gains and losses on available-for-sale securities. This standard does not change the display or components of present-day net income. Sprint will present the required disclosures in its financial statements beginning in the 1998 first quarter. SFAS 130 is not expected to have a material impact on Sprint.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This new standard requires companies to disclose segment data based on how management makes decisions about allocating resources to segments and how it measures segment performance. SFAS 131 requires companies to disclose a measure of segment profit or loss (operating income, for example), segment assets, and reconciliations to consolidated totals. It also requires entity-wide disclosures about a company's products and services, its major customers and the material countries in which it holds assets and reports revenues. Sprint will adopt SFAS 131 in its 1998 year-end financial statements. This statement is not expected to have a significant effect on Sprint's reported segments.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS 132 standardizes the disclosure requirements for pensions and postretirement benefits where practical. It also eliminates certain disclosures and requires additional information on changes in benefit obligations and fair values of plan assets. Sprint will adopt SFAS 132 in its 1998 year-end financial statements. SFAS 132 is not expected to have a significant effect on Sprint's pension and postretirement benefit plan disclosures.

17. Quarterly Financial Data (Unaudited)

1997	Quarter						
(in millions, except per share data)		1st		2nd		3rd	4th
Net operating revenues ⁽¹⁾ Operating	\$ 3	3,578.5	\$	3,667.5	\$	3,778.9	\$ 3,849.0
income ^{(1),(2)} Income before		604.7		595.5		640.7	610.5
extraordinary items ^{(2),(3)} Net income		290.0 290.0		255.9 255.9		211.7 211.7	194.9 194.9
EPS from income before							
extraordinary items ⁽⁴⁾ Basic	\$	0.67	\$	0.59	\$	0.49	\$ 0.45
Diluted	\$	0.67	\$	0.59	\$	0.49	\$ 0.45

1996		Quarter						
(in millions, except per share data)		1st		2nd		3rd		4th
Net operating	# 2	225.2	фa	(71.2	¢2	502.5	¢a	570 /
revenues ⁽¹⁾	\$3	,335.3	\$ 3	,471.3	\$3	,502.5	\$3	,578.4
Operating income ^{(1),(2)}		574.9		580.9		598.9		512.5
Income before	İ							
extraordinary								
items ⁽²⁾		309.3	İ	316.8		316.2		246.0
Net income		309.3	ļ	316.8		312.4		245.3
EPS from	1							
income before								
extraordinary								
items ⁽⁴⁾	1							
Basic	\$	0.78	\$	0.74	\$	0.73	\$	0.57
Diluted	\$	0.77	\$	0.73	\$	0.73	\$	0.56

⁽¹⁾ Consolidated net operating revenues and operating expenses reflect certain reclassifications to conform to the current presentation. These reclassifications had no effect on operating income or net income.

⁽²⁾ In the 1997 second quarter and the 1996 fourth quarter, Sprint recorded nonrecurring charges of \$20 and \$60 million, respectively, related to litigation within the long distance division. These charges reduced income from continuing operations by \$13 million (\$0.03 per share) and \$36 million (\$0.09 per share), respectively (see Note 9).

⁽³⁾ In the 1997 fourth quarter, Sprint recognized gains of \$45 million on sales of local exchanges and a \$26 million gain on the sale of an equity investment in an equipment provider. These gains increased income from continuing operations by \$27 million (\$0.06 per share) and \$17 million (\$0.04 per share), respectively.

⁽⁴⁾ Sprint adopted SFAS 128 at year-end 1997 (see Note 11). All EPS amounts comply with this new standard.

Management Report and Report of Independent Auditors

Management Report

The management of Sprint Corporation has the responsibility for the integrity and objectivity of the information contained in this Annual Report. Management is responsible for the consistency of reporting such information and for ensuring that generally accepted accounting principles are used.

In discharging this responsibility, management maintains a comprehensive system of internal controls and supports an extensive program of internal audits, has made organizational arrangements providing appropriate divisions of responsibility and has established communication programs aimed at assuring that its policies, procedures and codes of conduct are understood and practiced by its employees.

The consolidated financial statements included in this Annual Report have been audited by Ernst & Young LLP, independent auditors. Their audit was conducted in accordance with generally accepted auditing standards and their report is included herein.

Report of Independent Auditors

The Board of Directors and Shareholders, Sprint Corporation We have audited the accompanying consolidated balance sheets of Sprint Corporation (Sprint) as of December 31, 1997 and 1996, and the related consolidated statements of income, cash flows, and common stock and other shareholders' equity for each of the three years in the period ended December 31, 1997, appearing on pages 32, 38, 40 and 43 through 58. These financial statements are the responsibility of the management of Sprint. Our responsibility is to express an opinion on these financial statements based on our audits. The 1997 financial statements of Sprint Spectrum Holding Company, L.P., a partnership in which Sprint has a 40% interest, have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the 1997 consolidated financial statements relates to data included for Sprint Spectrum Holding Company, L.P., it is based solely on their report. In the consolidated financial statements, Sprint's equity in Sprint Spectrum Holding Company, L.P. is stated at \$749 million at December 31, 1997, and Sprint's equity in the net loss of Sprint Spectrum Holding Company, L.P. is stated at \$625 million for the year then ended.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require

The responsibility of the Board of Directors for these financial statements is pursued mainly through its Audit Committee. The Audit Committee, composed entirely of directors who are not officers or employees of Sprint, meets periodically with the internal auditors and independent auditors, both with and without management present, to assure that their respective responsibilities are being fulfilled. The internal and independent auditors have full access to the Audit Committee to discuss auditing and financial reporting matters.

Waterey

William T. Esrey

Chairman and Chief Executive Officer

Jesten Byanse

Arthur B. Krause

Executive Vice President and Chief Financial Officer

that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sprint at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 13 to the consolidated financial statements, Sprint discontinued accounting for the operations of its local telecommunications division in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1995.

Ernst + Young LLP

Kansas City, Missouri February 3, 1998

Board of Directors

DuBose Ausley is chairman of Ausley & McMullen, a law firm in Tallahassee, Florida. He is also chairman of the Capital City Bank Group, Inc. He has been a Sprint director since 1993.

Warren L. Batts is chairman and chief executive officer of Tupperware Corporation in Orlando, Florida. He is also chairman of Premark International, Inc. He has been a Sprint director since 1982. Batts is chairman of the audit committee and a member of the executive committee.

Michel Bon is chairman of France Telecom. From 1993 to September 1995, he was head of France's national job placement agency. Prior to that he was chairman and chief executive officer of Carrefour, the largest retailer in France. He has been a Sprint director since 1996. Bon is a member of the executive committee.

Ruth M. Davis is president and chief executive officer of The Pymatuning Group, Inc., in Alexandria, Virginia. She is also chairman of Aerospace Corp. She has been a Sprint director since 1981. Davis is a member of the audit committee.

William T. Esrey is chairman and chief executive officer of Sprint. He joined Sprint in 1980 as executive vice president-corporate planning, was named president and chief executive officer in 1985 and became chairman and chief executive officer in 1990. He has been a Sprint director since 1985. Esrey is chairman of the Board's executive committee.

Irvine O. Hockaday Jr. is president and chief executive officer of Hallmark Cards, Inc., in Kansas City, Missouri. He became a Sprint director in June 1997. Hockaday is a member of the audit committee.

Harold S. Hook is the retired chairman and chief executive officer of American General Corporation, in Houston, Texas. He has been a Sprint director since 1982. Hook is a member of the organization, compensation and nominating committee.

Ronald T. LeMay is president and chief operating officer of Sprint, a position held since February 1996, except for the period of July to October 1997, when he served as chairman and chief executive officer of Waste Management, Inc. Prior to that, he was vice chairman of Sprint, and chief executive officer of Sprint Spectrum Holding Company, L.P. From 1989 to 1995, he was president and chief operating officer of the long distance division of Sprint. LeMay served as a Sprint director from 1993 until July 1997. He was re-elected as a Sprint director in December 1997.

Linda Koch Lorimer is vice president and secretary of Yale University, in New Haven, Connecticut. She has been a director of Sprint since 1993. She is a member of the organization, compensation and nominating committee.

Charles E. Rice is chairman and chief executive officer of Barnett Banks, Inc., in Jacksonville, Florida. He has been a Sprint director since 1975. Rice is a member of the executive and the organization, compensation and nominating committees.

Ron Sommer is chairman of the board of management of Deutsche Telekom A.G. From 1989 until May 1995, he worked for the German subsidiary of the Sony Group, where he was last responsible for the 22 European subsidiaries as the head of Sony Europe. He has been a Sprint director since 1996. Sommer is a member of the organization, compensation and nominating committee.

Stewart Turley is chairman of Eckerd Corporation, in Clearwater, Florida. He has been a Sprint director since 1980. Turley is chairman of the organization, compensation and nominating committee, and a member of the executive committee.

Principal Corporate Officers and Principal Operating Company Officers

Principal Corporate Officers

William T. Esrey Chairman and Chief Executive Officer

Ronald T. LeMay President and Chief Operating Officer

J. Richard Devlin Executive Vice President General Counsel and External Affairs

Arthur B. Krause Executive Vice President Chief Financial Officer Kevin E. Brauer President National Integrated Services

Michael B. Fuller
President and Chief
Operating Officer
Local Telecommunications
Division

Patti S. Manuel
President and Chief
Operating Officer
Long Distance Division

Gene M. Betts Senior Vice President Corporate Finance

John R. Hoffman Senior Vice President External Affairs

John P. Meyer Senior Vice President Controller Theodore H. Schell Senior Vice President Strategic Planning and Corporate Development

M. Jeannine Strandjord Senior Vice President Treasurer

I. Benjamin Watson Senior Vice President Human Resources

Don A. Jensen Vice President Secretary

Principal Operating Company Officers

Long Distance Division

Paget L. Alves President Wholesale Services Group

R. Michael Franz
President
Sprint Business

George N. Fuciu President Technology Services

Thomas E. Weigman
President
Consumer Services Group

William J. Gunter Senior Vice President Finance

Martin J. Kaplan Senior Vice President/ Chief Technology Officer Technology Services

Local Telecommunications Division

Bruce H. Branyan President Business Markets

Randy W. Osler President

Carrier Markets

Robert E. Thompson III

President Consumer and Small Business Markets

William E. McDonald Senior Vice President Customer Service Operations

William C. Prout Senior Vice President Network

Product Distribution/ Directory Publishing Division

William G. Obermayer President Sprint North Supply

Robert J. Walsh President Sprint Publishing & Advertising

Emerging Businesses

Michael H. Holthouse President Sprint Paranet

Shareholder Information and Common Stock Data

nual Meeting: The Annual Meeting of Shareholders will be held Tuesday, April 21, 1998, at the world headquarters.

Common Stock Dividends: Dividends on Sprint common stock, declared by the Board of Directors, are usually paid quarterly at the end of March, June, September and December. The exact record dates and payment dates are set by the Board of Directors. The last quarterly dividend payment in the fourth quarter 1997 was 25 cents per share, or an indicated annual dividend of \$1.00 per common share.

Investor Information Line: Requests for the information shown below may be made in writing or by calling the Sprint Investor Information Line at 1 (800) 259-3755.

Automatic Dividend Reinvestment Plan: Sprint offers a dividend reinvestment and stock purchase plan to registered shareholders at no commission or handling charge for purchases made with reinvested dividends and/or optional cash payments. Shareholders may obtain information about the plan by writing to Shareholder Relations at the corporate headquarters or by calling the above 800 number.

m 10-K: Copies of Sprint's Annual Report on Form 10-K to the Securities and Exchange Commission may be obtained by shareholders without charge by writing to Investor Relations at the corporate headquarters or by calling the above 800 number.

Investor Inquiries: Security analysts, shareholders and investment professionals should direct inquiries regarding Sprint and its business in writing to Investor Relations at the corporate headquarters or by calling the above 800 number. Copies of the investor supplement to the Annual Report are available upon request.

Shareholder Inquiries: Inquiries regarding stock transfer, lost certificates, direct deposit of dividends or address change should be directed to the stock transfer agent,

Common Stock Data

First quarter Second quarter rd quarter Fourth quarter

Market Price per Share							
	1997		1996				
High	Low	End of Period	High	Low	End of Period		
48	38%	45%	385/8*	31 ¹⁵ /16*	38		
52%	421/4	52%	443/8	371/2	42		
52 %	44	50	421/8	341/2	38%		
60%	48%	58%	44	371/2	39%		

UMB Bank, n.a., in writing at their address (see below) or by calling 1 (800) 259-3755 and connecting with the with the transfer agent.

Quarterly Financial Information: Shareholders can receive a faxed or mailed copy of the quarterly financial results upon request through Sprint's toll-free Shareholder Information Line. Shareholders can dial 1 (800) 284-6977 to hear a recorded report on Sprint's financial performance and request a copy of printed quarterly results.

Sprint on the Internet: Sprint's World Wide Web site (www.sprint.com) is continuously updated and includes an electronic version of this annual report. Shareholders are also invited to visit Sprint's home page at this Internet address for quarterly financial data, important news releases and current information about products and services.

Corporate Headquarters Mailing Address: Sprint Post Office Box 11315 Kansas City, Missouri 64112

Shareholder Relations: (913) 624-2541

Auditors:

Ernst & Young LLP, Kansas City, Missouri

Stock Transfer Agent, Registrar and Dividend Paying Agent: UMB Bank, n.a.
Post Office Box 410064
Kansas City, Missouri 64141-0064
(816) 860-7786

Co-Transfer Agent and Registrar: ChaseMellon Shareholder Services, L.L.C. New York, New York

Dividend Reinvestment Agent: UMB Bank, n.a. Kansas City, Missouri

Stock Exchange Listings:
Common Stock
New York Stock Exchange
Chicago Stock Exchange
Pacific Exchange

Convertible Preferred Stock New York Stock Exchange

Stock Symbol: FON

^{*}Adjusted to reflect spinoff of cellular division.

One call does it all

To switch your long distance service to Sprint and enjoy other communications benefits, call **1-800-538-0952**. For deaf and hard-of-hearing customers who want to sign up for Sprint long distance, call **1-800-676-3777** (voice/TTY).

Simplify your life with Sprint — whether you need long distance, pagers, Internet, PCS, calling cards or telephone equipment.

Sprint World Headquarters

2330 Shawnee Mission Parkway Westwood, KS 66205 (913) 624-3000

Sprint's Long Distance Division

Headquarters 8140 Ward Parkway Kansas City, MO 64114 (913) 624-6000

Sprint Business (Businesses, state and local governments, universities and pay phone markets)

Business Marketing 5420 LBJ Freeway Dallas, TX 75240 (972) 405-3000 Consumer Services Group (Residential customers) 8140 Ward Parkway Kansas City, MO 64114 (913) 624-6000

Government Services Division (Federal government) 13221 Woodland Park Drive Herndon, VA 20171 (703) 904-2000

Wholesale Services Group (Wholesale solutions) 8140 Ward Parkway Kansas City, MO 64114 (913) 624-6365

Sprint's Local Telecommunications Division

Headquarters 5454 W. 110th Street Overland Park, KS 66211 (913) 345-7600 Sprint North Supply 600 New Century Parkway New Century, KS 66031

Sprint Publishing & Advertising
7015 College Boulevard
Suite 400
Overland Park, KS 66211

(913) 791-7000

Emerging Businesses

(913) 491-7000

National Integrated Services 7301 College Boulevard Overland Park, KS 66210 (913) 534=6231

Sprint International 2330 Shawnee Mission Parkway Westwood, KS 66205 (913) 624-3000 Sprint Paranet 1776 Yorktown Suite 700 Houston, TX 77056 (713) 626-4800

Strategic Alliances

Global One (Corporate and European headquarters)

Park Atrium Rue des Colonies 11 B-1000 Brussels, Belgium (011) 32-2-545-2000

(World)

12490 Sunrise Valley Drive Reston, VA 20196 (703) 689-6000

Sprint PCS 4900 Main Street Kansas City, MO 64112 (816) 559-1050

② Printed entirely on recycled paper meeting or exceeding the Environmental Protection Agency minimum requirements for recycled stock.

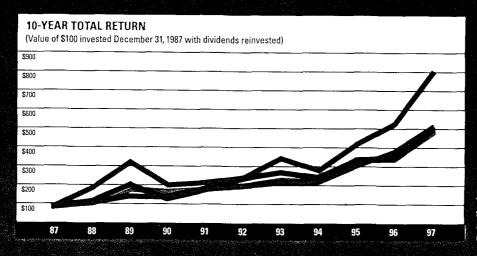
Trademarks and service marks owned or licensed by Sprint and its subsidiaries are indicated by special type throughout this publication.

RadioShack is a service mark of the Tandy Corporation.



A Great Story to Tell

10-Year Total Return



KEY

Sprint

S&P 500

Long Distance Index

Telephone Index

Long Distance Index includes Sprint, AT&T, MCI and WorldCom weighted by market capitalization.
Telephone Index includes the Bell Operating Companies and GTE weighted by market capitalization.

A \$100 investment in Sprint at year-end 1987 would have been worth \$800 at year-end 1997. Sprint's compounded annual return exceeded industry indices over a 10-year period through 1997. Returns reflect stock appreciation and reinvestment of dividends.

Exhibit C

Tariff Schedule

Applicable To

ARIZONA

Interexchange Telephone Communications

of

ASC Telecom, Inc. d/b/a AlternaTel

CHECK SHEET

* Asterisk indicates changes in current tariff filing. Current sheets in this tariff are as follows.

Page	Revision	Page	Revision
Title	Original	A-8	Original
1	Original	A-9	Original
2	Original		
2.1	Original		
3	Original		
4	Original		
5	Original		
6	Original		
7	Original		
8	Original		
9	Original		
10	Original		
10.1	Original		
10.2	Original		
10.3	Original		
11	Original		
12	Original		
13	Original		
14	Original		
14.1	Original		
14.2	Original		
14.3	Original		
14.4	Original		
14.5	Original		
15	Original		
16	Original		
17	Original		
18	Original		
19	Original		
20	Original		
21	Original		
22	Original		
23	Original		
A-1	Original		
A-2	Original		
A-3	Original		
A-4	Original		
A-5	Original		
A-6	Original		
A-7	Original		
	•		

ISSUED: 12-6-99

ASC Telecom, Inc. 8140 Ward Parkway Kansas City, Missouri 64114-2006 **EFFECTIVE:** 1-7-00

Original Page 2

TABLE OF CONTENTS

Page
CHECK SHEET 1
TABLE OF CONTENTS2
EXPLANATION OF SYMBOLS
APPLICATION OF TARIFF4
TERMS AND CONDITIONS5
DEFINITIONS5
UNDERTAKING OF CARRIER7
LIMITATION OF LIABILITY8
USE OF SERVICE9
CUSTOMER APPLICATION FOR SERVICE9
ESTABLISHMENT OF CREDIT9
DEPOSITS AND ADVANCE PAYMENTS9
RENDERING AND PAYMENT OF BILLS9
DISCONTINUANCE OF SERVICE10
CONTINUITY OF SERVICE
ADJUSTMENTS FOR MUNICIPALITY PAYMENTS 10
DEMONSTRATION OF CALLS10
FEES
COMMISSIONS11
AGGREGATOR 11

TABLE OF CONTENTS

SERVICE OFFERINGS	12
ASC Telecom DEBIT CARD SERVICE	12
ASC Telecom OPERATOR SERVICES	14
AlternaTel SERVICE	14.1
AlternaTel CALLING CARD SERVICE	14.2
AlternaTel DIRECTORY ASSISTANCE	14.3
AlternaTel OPERATOR SERVICE	14.4
AlternaTel TOLL FREE SERVICE	14.4
AlternaTel PAYPHONE SERVICE CHARGE	14.5
MAXIMUM USAGE RATES	15
ASC Telecom OPERATOR SERVICES	
AlternaTel SERVICE	
AlternaTel CALLING CARD SERVICE	
AlternaTel DIRECTORY ASSISTANCE	
AlternaTel OPERATOR SERVICE	
AlternaTel TOLL FREE SERVICE	
Alternate FOLL FREE SERVICE	22
PROMOTIONAL OFFERINGS	23
USAGE RATES	A-1
ASC Telecom DEBIT CARD SERVICE	
ASC Telecom OPERATOR SERVICES	
AlternaTel SERVICE	A-5
AlternaTel CALLING CARD SERVICE	
AlternaTel DIRECTORY ASSISTANCE	A-6
AlternaTel OPERATOR SERVICE	
AlternaTel TOLL FREE SERVICE	
AlternaTel PAYPHONE SERVICE CHARGE	

EXPLANATION OF SYMBOLS

When changes are made on any tariff page, a revised page will be issued canceling the tariff page affected; such changes will be identified through the use of the following symbols:

- (C) To signify changed regulation or rate.
- (D) To signify the Deletion/Discontinuance of rates, regulations, and/or text.
- (I) To signify an Increase.
- (M) To signify matter Moved/Relocated within the tariff with no change to the material.
- (N) To signify New text, regulation, service, and/or rates.
- (R) To signify a Reduction.
- (T) To signify a Text Change in tariff, but no change in rate or regulation.

The above symbols will apply except where additional symbols are identified at the bottom of an individual page.

Original Page 4

1. APPLICATION OF TARIFF

This tariff contains the regulations and rates applicable for the furnishing of telecommunications services provided by ASC Telecom, Inc. between and among points within the state of Airzona.

2. TERMS AND CONDITIONS

2.1 DEFINITIONS

Certain terms used generally throughout this tariff for services furnished by the Carrier are defined below.

Carrier

The term "Carrier" refers to ASC Telecom, Inc.

Company

The term "Company" refers to ASC Telecom, Inc. unless it specifically refers to the Local Exchange Company (LEC).

Day

The term "Day" denotes 8:00 a.m. to 4:59 p.m. local time at the originating terminal on Monday through Friday.

End User

Any person, firm, corporation, partnership or other entity which uses the services of the Carrier under the provisions oand regulations of this tariff. The End User is responsible for payment unless the charges for the services utilized are accepted and paid by another Customer.

Evening

The term "Evening" denotes 5:00 p.m. to 10:59 p.m. local time at the originating terminal on Sunday through Friday.

2. TERMS AND CONDITIONS

2.1 <u>DEFINITIONS</u>

Holidays

The term "Holidays" denotes all Carrier specified holidays as follows: New Year's Day, President's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Holiday rates are equal to the Evening rates for the time period 8:00 a.m. to 10:59 p.m. and are at the Night rates from 11:00 p.m. to 7:59 a.m. on Monday through Friday. If the Holiday falls on a Saturday or Sunday, the Friday preceding the Holiday or the Monday following the Holiday is rated at ASC Telecom, Inc. Holiday rates.

Night/Weekend

The term "Night/Weekend" denotes 11:00 PM to but not including 8:00 AM local time at the originating city, any time on Saturday, and all day Sunday except 5:00 PM to but not including 11:00 PM.

Original Page 7

2. TERMS AND CONDITIONS (Continued)

2.2 UNDERTAKING OF THE CARRIER

The Company undertakes to provide 24-hour intrastate, interstate and international long distance telephone service, subject to the availability of facilities, in accordance with the terms and conditions set forth in this tariff.

2.3 LIMITATION OF LIABILITY

.1 Liability of the Carrier

The liability of Carrier, if any, for damages arising out of mistakes, omissions, interruptions, delays, errors, or defects in transmission during the course of furnishing service shall in no event exceed an amount equivalent to the charge to Customer for the service during which such mistakes, omissions, interruptions, delay, errors, or defects in transmission occurred. However, any such mistakes, omissions, interruptions, delays, errors, or defects in transmission or service which are caused by or contributed to by the negligence or willful act of customer, or which arise from facilities or equipment used by Customer, shall not result in the imposition of any liability whatsoever upon Carrier. Carrier is not liable for the quality of service provided by any local exchange carrier. Carrier is not liable for any act, omission or negligence of any local exchange carrier or other provider whose facilities are used in furnishing any portion of the service received by Customer. Under no circumstances whatever shall Carrier or its officers, agents, or employees be liable for indirect, incidental, special or consequential damages. Carrier shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to civil disorders, labor problems, and fire, flood, atmospheric conditions or other phenomena of nature, such as radiation. In addition, Carrier shall not be liable for any failure of performance hereunder due to necessary network reconfiguration, system modifications due to technical upgrades, or regulations established or actions taken by any court or government agency having jurisdiction over Carrier.

.2 Overpayment

The Carrier shall not be obligated to refund any overpayment by a user unless a written claim for such overpayment, together with substantiating evidence which will allow Carrier to verify such claim, is submitted within two (2) years from the date of the alleged overpayment.

.3 Disclaimer of Warranties

Except as expressly provided in this tariff, Carrier makes no understanding, agreements, representations or warranties, expressed or implied (including any regarding the merchantability or fitness for a particular purpose).

.4 Refunds for Interruption or Impairment to Carrier Service

It shall be the obligation of the customer to immediately notify the Carrier of any service interruption.

2.4 USE OF SERVICE

Neither subscribers nor their authorized users may use the services furnished by the Carrier for any unlawful purpose.

2.5 CUSTOMER APPLICATION FOR SERVICE

Service requests will be honored by telephone and/or through telephone confirmation with the local exchange company.

An AlternaTel customer's application for service must be made through an authorized agent of the company.

2.6 ESTABLISHMENT OF CREDIT

Carrier reserves the right to examine the credit record and check the references of all applicants and customers.

2.7 <u>DEPOSITS AND ADVANCE PAYMENTS</u>

Carrier does not collect deposits or advance payments at this time.

2.8 RENDERING AND PAYMENT OF BILLS

.1 ASC Telecom

- .1 Billing periods are monthly.
- .2 The billing date is dependent on the billing cycle assigned to the customer.
- .3 Bills are due and payable as the Local Exchange Carrier dictates. Additional fees for late payment may be assessed as determined by the Local Exchange Carrier.
- .4 Bills may be paid by mail or in person at the business offices of the Local Exchange Carrier. All charges for service are payable only in United States currency. Payment may be made by cash, check, money order, or cashier's check.
- .5 Carrier is not responsible for local telephone charges incurred by Customer in gaining access to Carrier's network.
- .6 Connection fees and usage and monthly access fees are billed in arrears.
- .7 The customer will be billed for and is liable for payment of all applicable federal, state

ISSUED: 12-6-99

ASC Telecom, Inc. 8140 Ward Parkway Kansas City, Missouri 64114-2006

EFFECTIVE:

and local taxes and surcharges.

2.8 RENDERING AND PAYMENT OF BILLS

.2 AlternaTel

.1 Direct Payment By Company or Authorized Billing Agent

An AlternaTel customer's, bill is sent to the current billing address no later than thirty (30) days following the close of billing. Call detail is included with the bill. The due date is disclosed on the bill. Payment in full is due within thirty (30) days of the invoice date on the bill. Charges are payable only in United States currency. Payment may be made by check, money order, or cashier's check. Checks should be made payable as named on the bill and should be sent to the address as listed on the bill.

If the bill is not paid within thirty (30) days from the invoice date, the Company may impose a late charge of 1.5% per month on the delinquent amount.

.2 LEC Billing

The customer's charges for the Company's services are billed with the customer's bill for local service. Call detail is included with the bill. If LEC billing is utilized, the rules and regulations applying to rendering and payment of bill and late charges are the same as covered in the applicable LEC tariff.

.3 Credit Card Billing

Call detail is sent to the customer's current billing address no later than thirty (30) days following the close of billing. Charges will appear on the customer's credit card bill. The company reserves the right to determine the credit cards that are acceptable.

2.9 DISCONTINUANCE OF SERVICE

Service continues to be provided until canceled, by Customer, in writing, or until canceled by Carrier as set forth below.

.1 <u>Cancellation by Customer</u> - Customer may have service discontinued 30 days after giving notice to Carrier. Carrier will hold customer responsible for payment of all bills for service furnished until the cancellation date specified by the customer or until 30 days after the cancellation notice is received.

.2 Cancellation by Carrier ASC Telecom

Carrier may immediately discontinue service or cancel any application for service without incurring any liability when there is an unpaid bill for any sum due to the Carrier for service that is more than 30 days beyond the date of issue.

2.9 DISCONTINUANCE OF SERVICE

.3 <u>Cancellation by Carrier – AlternaTel</u>

Conditions under which the Company may, without notice, terminate service without liability include, but are not limited to:

- .1 Insufficient or fraudulent billing information or invalid or unauthorized telephone numbers.
- .2 Any order or decision of a court or other governmental authority prohibits the Company from offering such service.
- .3 The Company deems termination necessary to protect the Company or third parties against fraud, or to otherwise protect the Company's personnel, agents, or service.
- .4 Customer's or end user's misuse of the Designated Underlying Carrier's (DUC) network or the Company's switching equipment.
- .5 Customer's or end user's use of the Designated Underlying Carrier's (DUC) network or the Company's switch for any fraudulent or unlawful purpose.
- .6 Emergency, threatened, or actual disruption of service to other Customers.
- .7 Unauthorized or fraudulent procurement of service, including a misrepresentation of fact relevant to the conditions under which the applicant of customer may obtain or continue to receive service.

Conditions under which the Company may, with notice, terminate service without liability include, but are not limited to:

- .1 Customer's use of the service constitutes a violation of either the provisions of this tariff, or of any laws, or governmental rules, regulations, or policies.
- .2 Customer's credit card is canceled or refused.
- .3 Non-payment of any sum owed the Company.

2. TERMS AND CONDITIONS (Continued)

2.10 CONTINUITY OF SERVICE

In the event of foreknowledge of an interruption of service for a period exceeding 24 hours, the customer will be notified in writing, by mail, at least one week in advance.

2.11 ADJUSTMENTS FOR MUNICIPALITY PAYMENTS

When any municipality, or other political subdivision or local agency of government imposes upon and collect from the Carrier a gross receipts tax, occupation tax, license tax, permit fee, franchise fee or any such other tax, such taxes and fees shall, insofar as practicable, be billed pro rata to the Carrier's customers receiving service within the territorial limits of such municipality, other political subdivision or local agency of government.

AlternaTel may adjust its rates and charges or impose additional rates and charges on its customers in order to recover amounts it is required by governmental or quasi-government authorities to collect from or pay to others in support of statutory or regulatory programs. Examples of such programs include, but are not limited to, the Universal Service Fund, the Primary Interexchange Carrier Charge, and compensation to payphone service providers for use of their payphones to access Sprint's services.

2.12 Demonstration of Calls

From time to time the company shall demonstrate service by providing free test calls of up to four minutes duration over its network.

2.13 FEES

No fees are collected from the end user in addition to the charges as specified in Section 4.

2. TERMS AND CONDITIONS (Continued)

2.14 Commissions

No commissions are collected from the end user in addition to the charges specified in Section 4.

2.15 Aggregator Surcharges

At the option of the Aggregator, a per-call Aggregator Surcharge may apply for use of the Aggregator's telecommunications facilities and equipment. Surcharge amount is listed in Section 4.2.3. No other charge beyond the rates listed in Section 4.2 of this tariff are billed to the end-user by ASC Telecom Inc. for calls made using the company's service.

3. SERVICE AND RATE DESCRIPTION

.1 ASC Telecom Debit Card Service#

The ASC Telecom Debit Card allows customers to pay a fixed dollar amount in advance for long distance calling over ASC Telecom's network. Customers use an "800" number for access from touch tone phones. Customers can place domestic and international direct dial calls using the service. Cards are decremented for each minute or fractional minute of use as set forth below. As calls are placed, charges for the call are deducted on a real time basis until the full amount of the card is exhausted. Customers will be notified in advance of the exhaustion of the card. An expiration date, if applicable, is printed on the card. The rates paid by the customer until the card is exhausted or until there are insufficient funds remaining to initiate an additional call, are the rates in effect at the time the card is purchased. Debit Card accounts may be replenished at the rates specified for replenished cards.

The following types of calls may not be completed using the ASC Debit Card:

- * calls to 700, 800, and 900 numbers
- * calls to directory assistance
- * operator assisted calls
- * conference calls
- * calls requiring time and/or charges

The ASC Debit Card is available twenty-four hours a day, seven days a week. The cards will be offered to customers on a first serve basis and may be offered in conjunction with other ASC products.

Effective 6/17/98, ASC Telecom Debit Card will no longer be available to new customers.

(N)

3. <u>SERVICE AND RATE DESCRIPTION</u> (Continued)

- .1 ASC Telecom Debit Card Service (Continued)
 - .1 Original Purchase Debit Card Accounts#

An ASC Telecom Debit Card account is established upon receipt of payment by the Company. When an original purchase account is established, the Company will assign an Account Code/Authorization Code to the account. The Company reserves the right to determine the acceptable types of payment. Original purchase accounts are available for use at the rates as set forth in section 4 of this tariff.

1 intrastate minute of use = 1 unit

(D)

.2 Replenishment of Debit Card Accounts

An ASC Telecom Debit Card account may replenished via an "800" number. To replenish an existing Debit Card account, the customer must use a commercial credit card. The Company reserves the right to determine the acceptable types of credit cards. Replenished accounts are available for use at the rates as set forth in Section 4 of this tariff.

Effective 6/17/98, ASC Telecom Debit Card will no longer be available to new customers.

(N)

3. <u>SERVICE AND RATE DESCRIPTION</u> (Continued)

.2 ASC Telecom Operator Services

.1 Description of Service

Operator Services are available from specific locations within the state of Arizona for a charge.

Access to Operator Service can be obtained by the following dialing methods.

- "00" from a telephone subscribed to ASC in a FGD area.
- "0 + (NPA-NXX-XXXX)" from a telephone subscribed to ASC in a FGD area.
- "10252" + "0" + from an ASC or non-ASC subscribed telephone in a FGD area.

ASC Telecom provides the service of connecting customers to a nationwide Directory Assistance operator for a per-call charge as described in Rate Schedule 1 of this tariff for intrastate information requests. Customers can receive up to two numbers per request. The fee applies whether or not the Directory Assistance operator furnishes the requested telephone number(s), e.g., the requested telephone number is unlisted, non-published or no record can be found. Requests for information other than telephone numbers will be charged for as requests for telephone numbers.

A credit allowance for Directory Assistance will be provided upon request if a customer experiences poor transmission quality, is cut-off, receives an incorrect telephone number, or misdials the intended Directory Assistance number.

When a Sprint Operator assists with a Directory Assistance call the charges as set forth in Rate Schedule 1.2.1.2 will apply.

3. <u>SERVICE AND RATE DESCRIPTION</u> (Continued)

.2 AlternaTel Service

AlternaTel Service is an intercity service, which is available for twenty-four (24) hours a day. The subscriber will use one or more of the three following dialing patterns to gain access to the AlternaTel fiber optic network:

- .1 In Feature Group D (FGD) exchanges, subscriber's telephone line(s) presubscribed to AlternaTel are programmed by the local exchange company (LEC) to automatically route "1+" calls to the Carrier's network.
- .2 Customers who have selected AlternaTel as their "secondary" interexchange long distance carrier dial "1010XXX+" to access the Carrier's network.
- .3 In some LATAs, in areas where equal access conversion has not yet occurred, some AlternaTel Service subscribers dial an access number and authorization code to gain access to the Carrier's network.

Subscribers may originate AlternaTel Service from the state of Arizona and may terminate and may terminate calls in all locations within the state. In the event, AlternaTel determines that provision of AlternaTel Dial-Up Service, via a seven digit access number and authorization code, imposes a significant risk of fraudulent use of its service, AlternaTel may choose not to process new orders for Dial-Up Service and/or may, after written notice, cancel existing customers' authorization codes. In such cases, AlternaTel will continue to offer customers its "800" access Calling Card Service. AlternaTel Dial "1" Service or the "1010XXX" access number will also be offered where equal access (FGD) is available. Subscribers who use AlternaTel Dial-Up Service in conjunction with automatic dialing equipment may be exempted from this requirement when AlternaTel determines that the likelihood of fraudulent use of the service using such equipment is not significant. AlternaTel service is billed in one (1) minute increments.

.3 <u>SERVICE AND RATE DESCRIPTION</u> (Continued)

.3 AlternaTel Calling Card Service

Calling Card Service is available to presubscribed business and residential customers of one of AlternaTel's outbound services for use when away from their established primary service location. Calling Card access can be from either a tone-generating or rotary-dial telephone instrument, and is gained by dialing the "1010XXX" or the Company's toll free number, plus "0", the called telephone number and Calling Card number. Subscribers may bill calls to their account when calling from any location within the State of Arizona. AlternaTel Calling Card Service is billed in one (1) minute increments. A flat per-minute usage rate will apply.

.3 <u>SERVICE AND RATE DESCRIPTION</u> (Continued)

.4 AlternaTel Directory Assistance

AlternaTel will offer Directory Assistance to business and residential customers.

AlternaTel provides the service of connecting customers to a nationwide Directory Assistance operator for a per-call charge as described in Rate Schedule 1.4 of this tariff for intrastate information requests. Customers can receive up to two numbers per request. The fee applies whether or not the Directory Assistance operator furnishes the requested telephone number(s), e.g., the requested telephone number is unlisted, non-published or no record can be found. Requests for information other than telephone numbers will be charged for as requests for telephone numbers.

A credit allowance for Directory Assistance will be provided upon request if a customer experiences poor transmission quality, is cut-off, receives an incorrect telephone number, or misdials the intended Directory Assistance number.

National Directory Assistance Service gives a customer the option of completing a call to the called station telephone number received from the Directory Assistance operator without hanging up and originating a new call. National Directory Assistance Service is offered when a customer requests intrastate Directory Assistance. A call completion charge applies in addition to the Directory Assistance per-call charge if the customer accepts the offer. When two numbers are requested from Directory Assistance only the second call can be completed. The call completion fee will not apply if the call cannot be completed. Charges for this service are set forth in Rate Schedule 1.4

When an AlternaTel Operator assists with a Directory Assistance call the charges as set forth in Rate Schedule 1.4 will apply.

Calls placed to Directory Assistance utilizing a Calling Card will incur both the Calling Card connection fee as well as the applicable Directory Assistance per-call charge.

.3 <u>SERVICE AND RATE DESCRIPTION</u> (Continued)

.5 AlternaTel Operator Service

AlternaTel Operator Service is available to business and residential customers for a fee as described in Rate Schedule 1.5 of this tariff, for operator-assisted calls. Access to the AlternaTel Operator can be from either tone-generating and/or rotary-dial telephone instruments and is obtained by one or more of the following dialing methods, depending upon the LEC access arrangements and/or area of origination:

Access to Operator Service can be obtained by the following dialing methods:

- .1 AlternaTel Service subscribers may dial "00" to reach Carrier's operator; or dial 0+ the called telephone number (NPA+ NXX-XXXX)" for long distance calling assistance from equal access (FGD) areas.
- .2 AlternaTel Calling Card Service subscribers and/or Non-FGD originating locations must dial the Company's toll free number to reach Carrier's operator.

Rate periods are Day, Evening, and Night as defined in Section 2.1 of this tariff. AlternaTel Operator Service is billed in one (1) minute increments.

.6 AlternaTel Toll Free Service

AlternaTel Toll Free Service is a flat-rated, inward calling service for business or residential customer, which allows calls to be terminated over the subscriber's existing phone line. The subscriber does not need to change phone numbers or add additional lines. AlternaTel Toll Free Service is available to customers who have selected AlternaTel as their primary interexchange carrier. AlternaTel Toll Free Service is billed in one (1) minute increments.

.3 SERVICE AND RATE DESCRIPTION

.7 AlternaTel Payphone Service Charge

A payphone service charge will be incurred on any phone call made from a public/semi-public payphone. A payphone service charge will be applied to all completed intrastate long distance calls placed from a public/semi-public payphone when:

- .1 An alternate billing method is used for calling card, commercial credit card, collect or third-party calls.
- .2 Long distance calls are placed via designated Sprint 800 number, (e.g. Calling Card).
- .3 Directory Assistance calls are made.

The Payphone Service Charge will be applied in addition to all other applicable surcharges, Operator Service Call Placement Charges or usage rates.

4. <u>USAGE RATES</u>

- .1 Reserved for Future Use
- .2 ASC Telecom Operator Services
 - .1 Option A
 - .1 Operator Service Per-Minute Usage Rates- Maximum Rates

		<u>Initial</u> :	<u>Minute</u>	<u>./</u>	Additional N	<u> Minute</u>
			Night/			Night/
<u>Mileage</u>	<u>Day</u>	Evening	Weekend	<u>Day</u>	Evening	Weekend
1-10	.7500	.7500	.7500	.7500	.7500	.7500
11-16	.7500	.7500	.7500	.7500	.7500	.7500
17-22	.7500	.7500	.7500	.7500	.7500	.7500
23-30	.7500	.7500	.7500	.7500	.7500	.7500
31-40	.7500	.7500	.7500	.7500	.7500	.7500
41-55	.7500	.7500	.7500	.7500	.7500	.7500
56-70	.7500	.7500	.7500	.7500	.7500	.7500
71-124	.7500	.7500	.7500	.7500	.7500	.7500
125-196	.7500	.7500	.7500	.7500	.7500	.7500
197-292	.7500	.7500	.7500	.7500	.7500	.7500
293-430	.7500	.7500	.7500	.7500	.7500	.7500
431-925	.7500	.7500	.7500	.7500	.7500	.7500

- 4. <u>USAGE RATES</u> (Continued)
 - .2 <u>ASC Telecom Operator Services</u> (Continued)
 - .2 Operator Service Call Placement Charges-Maximum Charges

		Call Placement Charge
	<u>1</u>	Added to the First Minute of Each Call)
.1	Collect Station-to-Station	\$ 5.00
.2	Collect Person-to-Person	5.00
.3	Person-to-Person	5.00
.4	Station-to-Station	5.00
.5	LEC Calling Card* Person-to Person	5.00
.6	LEC Calling Card* Station-to-Station	1
	.1 Customer Dialed	5.00
	.2 Operator Dialed	5.00
.7	Directory Assistance	5.00
.8	Third Party Person-to-Person	5.00
.9	Third Party Station-to-Station	5.00
.10	Operator Dialed Surcharge**	5.00
.11	Busy Line Verification***	10.00
.12	Emergency Interruption***	10.00

- 4. <u>USAGE RATES</u> (Continued)
 - .2 ASC Telecom Operator Services (Continued)
 - .3 Aggregate Surcharge

A pass through charge billed on behalf of the aggregator may be assessed to each call completed by ASC Telecom, Inc.

Maximum

Per-Call Surcharge: \$5.00

- 4. <u>USAGE RATES</u> (Continued)
 - .3 AlternaTel Service

AlternaTel Service is billed in one (1) minute increments.

Maximum

.1 Monthly Recurring Charge

\$25.00

.2 Per-Minute Usage Rates

Per-Minute Rate

\$.75

The above rates also apply to Casual Caller customers (LEC billed).

.4 <u>USAGE RATES</u>

.4 AlternaTel Calling Card Service

Calling Card Service calls are billed in one-minute increments with each fractional call rounded up the next minute. If the computed charges include a fraction of a cent, the fraction is rounded down to the next whole cent.

.1 Per-Minute Usage Rates

	Per Minute Rate	<u>Maximum</u> \$1.00
.5	AlternaTel Directory Assistance	

.1 Direct Dialed Calls

.1	Per-call charge	\$3.00
.2	Call completion charge-automated	\$3.00

.2 AlternaTel Operator Assisted Calls

.1	Per-call charge	\$3.00
.2	Call completion charge	\$3.00
.3	Operator Service charges	See Section 4.5.2

.4 USAGE RATES

.6 AlternaTel Operator Service

Rate periods are set forth in Section 3.5.

.1 Per-Minute Usage Rates*

Maximum

Per Minute Rate

\$2.00

* Each fractional call is rounded up the next minute. If the computed charges include a fraction of a cent, the fraction is rounded down to the next whole cent.

.4 <u>USAGE RATES</u>

.6 AlternaTel Operator Service

.2 Operator Service Call Placement Charges-Maximum Charges

		Call Placement Charge
	<u>(</u>	Added to the First Minute of Each Call)
.1	Collect Station-to-Station	\$ 5.00
.2	Collect Person-to-Person	\$ 5.00
.3	Person-to-Person	\$ 5.00
.4	Station-to-Station	\$ 5.00
.5	LEC Calling Card* Person-to Person	\$ 5.00
.6	LEC Calling Card* Station-to-Station	ı.
	.1 Customer Dialed	\$ 5.00
	.2 Operator Dialed	\$ 5.00
.7	Directory Assistance	\$ 5.00
.8	Third Party Person-to-Person	\$ 5.00
.9	Third Party Station-to-Station	\$ 5.00
.10	Operator Dialed Surcharge**	\$ 5.00
.11	Busy Line Verification***	\$10.00
.12	Emergency Interruption***	\$10.00

.4 USAGE RATES

.7 AlternaTel Toll Free Service

Rates are based on usage charges and a monthly service fee. All calls are billed in 60 second increments with a 60 second per-call minimum. No installation charge is required.

3. /			
Ma	Y1r	nnr	n
TATO		ши	77

.1 Per-Minute Usage Rates

Peak \$1.00 Off-Peak \$1.00

.2 Time of Day Calling Periods

 Peak
 7a.m. to 6:59a.m.

 Off-Peak
 7a.m. to 6:59a.m.

.3 Monthly Service Charge \$10.0

5. PROMOTIONAL OFFERINGS

The Carrier may from time to time engage in special promotional service offerings designed to attract new customers or to increase existing customer's awareness of a particular tariff offering. These offerings may be limited to certain dates, times and/or locations. Requests for specific limited duration promotional offerings will be presented to the Commission in accordance with the rules and regulations established by the Commission in the form of a letter to the Commission.

1. <u>USAGE RATES</u>

- .1 ASC Telecom, Inc. Debit Card Service#
 - .1 Original Purchase Debit Card Accounts

Card	Usage
<u>Value</u>	Rate
\$05.00	\$.56
\$10.00	\$.50
\$20.00	\$.45
\$50.00	\$.40

.2 Replenishment of Debit Card Accounts

Card	Usage
<u>Value</u>	Rate
\$05.00	\$.56
\$10.00	\$.50
\$20.00	\$.45
\$50.00	\$.40

Effective 6/17/98, ASC Telecom Debit Card will no longer be available to new customers. **ISSUED:** ASC Telecom, Inc. **EFFECTIVE:**

1. USAGE RATES

.2 ASC Telecom Operator Services

Operator Services are available twenty-four (24) hours a day, seven (7) days a week. Calls that begin in one rate period and terminate in another rate period will be prorated accordingly.

.1 Option A

.1 Operator Service Per-Minute Usage Rates*

Call placement charges apply in addition to the Operator Services per-minute usage rates above.

		<u>Initial</u>	<u>Minute</u>	3	Additional I	<u> ∕Iinute</u>
			Night/			Night/
<u>Mileage</u>	<u>Day</u>	Evening	Weekend	<u>Day</u>	Evening	Weekend
1-10	.2400	.1560	.1140	.1100	.0715	.0550
11-16	.3400	.2140	.1410	.1600	.1040	.0800
17-22	.3400	.2140	.1410	.1600	.1040	.0800
23-30	.3500	.2435	.1680	.2000	.1365	.1030
31-40	.3500	.2435	.1680	.2000	.1365	.1030
41-55	.3600	.2435	.1680	.2000	.1365	.1030
56-70	.4100	.2940	.2040	.2520	.1680	.1360
71-124	.4100	.2940	.2040	.2520	.1680	.1360
125-196	.4305	.2950	.2040	.2730	.1890	.1360
197-292	.4305	.2950	.2040	.2730	.1890	.1360
293-430	.4305	.3100	.2100	.3000	.1980	.1510
431-925	.4305	.3100	.2170	.3000	.1980	.1510

1. USAGE RATES

.2 ASC Telecom Operator Services

.1 Option A

.2 Operator Service Call Placement Charges

Applicable per-minute usage rates apply with a one-time Call Placement charge added to the first minute of each call.

		Call Placement Charge
	<u>(</u>	Added to the First Minute of Each Call)
.1	Collect Station-to-Station	\$1.55
.2	Collect Person-to-Person	3.00
.3	Person-to-Person	3.00
.4	Station-to-Station	1.55
.5	LEC Calling Card* Person-to Pers	son 3.00
.6	LEC Calling Card* Station-to-Stat	tion
	.1 Customer Dialed	0.80
	.2 Operator Dialed	1.55
.7	Directory Assistance	0.50
.8	Third Party Person-to-Person	3.00
.9	Third Party Station-to-Station	1.55
.10	Operator Dialed Surcharge**	1.15
.11	Busy Line Verification***	See Sprint Tariff Arizona Tariff No. 2
		Rate Schedule 5.3.1
.12	Emergency Interruption***	See Sprint Tariff Arizona Tariff No. 2
		Rate Schedule 5.3.1

- * ASC Telecom, Inc. accepts only cards which it can identify as valid. Usage and Call Placement Charges for LEC Calling Card calls appear on the LEC bill for both ASC Telecom, Inc. and non-ASC Telecom, Inc. subscribers.
- ** This surcharge applies in addition to all Station-to-Station and Person-to-Person Operator Service charges when the customer has the ability to dial all the digits necessary for call completion but dials instead "0", "00-", or 10252 + "0" to reach the ASC Telecom, Inc. operator to have the operator complete the call. The surcharge will be applied to all Operator Service calls completed by an operator except for 1) calls which cannot be completed by the customer due to equipment failure or trouble on the ASC Telecom, Inc. network; or 2) when a LEC Calling Card is used from a payphone.
- *** The Busy Line Verification charge applies when ASC Telecom, Inc. provides operator assistance to determine if there is an ongoing conversation at a called station. The emergency Interruption surcharge applies in addition to the Busy Line Verification charge when ASC Telecom, Inc. provides operator assistance to interrupt an ongoing conversation, regardless of whether the interruption is successful.

1. USAGE RATES

- .2 ASC Telecom Operator Services (Continued)
 - .3 Aggregate Surcharge

A pass through charge billed on behalf of the aggregator may be assessed to each call completed by ASC Telecom, Inc.

Per-Call Surcharge: \$1.50

1. USAGE RATES

.3 AlternaTel Service

AlternaTel Service is billed in one (1) minute increments.

.1 Monthly Recurring Charge

\$4.95

.2 Per-Minute Usage Rates

Per-Minute Rate

\$.10

The above rates also apply to Casual Caller customers (LEC billed).

.3 Time of Day Calling Periods

Peak

7 a.m. to 6:59 p.m.

Off-Peak

7 p.m. to 6:59 a.m.

1. <u>USAGE RATES</u>

.4 AlternaTel Calling Card Service

Calling Card Service calls are billed in one-minute increments with each fractional call rounded up the next minute. If the computed charges include a fraction of a cent, the fraction is rounded down to the next whole cent.

.1 Per-Minute Usage Rates

Per Minute Rate

\$.25

.5 AlternaTel Directory Assistance

.1 Direct Dialed Calls

.1	Per-call charge	\$0.50
.2	Call completion charge-automated	\$0.50

.2 AlternaTel Operator Assisted Calls

.1	Per-call charge	\$0.50
.2	Call completion charge	\$x0.50
.3	Operator Service charges	See Section 4.5.2

Requests will be limited to two (2) per call.

A credit allowance for Directory Assistance will be provided upon request if the subscriber experiences poor transmission quality, is cut off, receives an incorrect telephone number or misdials the intended Directory Assistance number.

1. <u>USAGE RATES</u>

.6 AlternaTel Operator Service

Rate periods are set forth in Section 3.5.

.1 Per-Minute Usage Rates*

Per Minute Rate

\$.55

* Each fractional call is rounded up the next minute. If the computed charges include a fraction of a cent, the fraction is rounded down to the next whole cent.

1. USAGE RATES

.6 AlternaTel Operator Service

.2 Connection Fees

Operator Services per-minute usage rates apply to operator handled calls as well as the below-listed Connection Fees.

	Class of Service Ca	ll Placement Charge/ Connection Fee
.1	Station-to-Station	\$ 3.50
.2	Person-to-Person	\$ 4.90
.3	Collect Station-to-Station	\$ 3.50
.4	Collect Person-to-Person	\$ 4.90
.5	Third Party Billing	
	.1 Station-to-Station	\$ 3.50
	.2 Person-to-Person	\$ 4.90
.6	LEC Calling Card*	
	.1 Operator Dialed Station-to	-Station \$ 1.00
	.2 Customer Dialed Station-t	o-Station \$ 3.50
	.3 Person-to-Person	\$ 4.90
.7	Operator Dialed Surcharge**	\$ 1.50
.8	Busy Line Verification***	\$ 6.50
.9	Emergency Interruption***	\$13.00

- * AlternaTel accepts only cards which it can identify as valid. Usage and Call Placement Charges for LEC Calling Card calls appear on the LEC bill for both AlternaTel and non-AlternaTel subscribers.
- ** This surcharge applies in addition to all Station-to-Station and Person-to-Person Operator Service charges when the Customer has the ability to dial all the digits necessary for call completion but dials instead "0", "00-", or 1010XXX + "0" to reach the AlternaTel operator to have the operator complete the call. The surcharge will be applied to all Operator Service calls completed by an operator except for 1) calls which cannot be completed by the Customer due to equipment failure or trouble on the AlternaTel network; 2) when a AlternaTel Calling Card is being used; or 3) when a LEC Calling Card is used from a payphone or 4) defaults to an operator or assistance while using a toll free collect service.
- *** The Busy Line Verification charge applies when AlternaTel provides operator assistance to determine if there is an ongoing conversation at a called station. The Emergency Interruption surcharge applies in addition to the Busy Line Verification charge when AlternaTel provides operator assistance to interrupt an ongoing conversation, regardless of whether the interruption is successful.

USAGE RATES

.7 AlternaTel Toll Free Service

Rates are based on usage charges and a monthly service fee. All calls are billed in 60 second increments with a 60 second per-call minimum. No installation charge is required.

.1 Per-Minute Usage Rates

Peak

\$.10

Off-Peak

\$.10

.2 Time of Day Calling Periods

Peak

7a.m. to 6:59p.m.

Off-Peak

7p.m. to 6:59a.m.

.3 Monthly Service Charge

\$2.95

.8 AlternaTel Payphone Service Charge

A payphone service charge will be incurred on any phone call made from a public/semi-public payphone.

The following per-call service charge will be applied to all completed intrastate calls made from a public/semi-public payphone, as described in Section 3.7 of this tariff.

Per-call service charge

\$.26